MONGOLIA HUMAN DEVELOPMENT REPORT 2007

EMPLOYMENT AND POVERTY IN MONGOLIA

EXECUTIVE SUMMARY

Government of Mongolia

UNDP Mongolia

International Labour Organization

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ADB	Asian Development Bank
AOM	Academy of Management
CHRD	Center for Human Rights and Development
CMTU	Confederation of Mongolian Trade Unions Organizations
CPI	Consumer Price Index
CPS	Center for Policy Studies
FDI	Foreign Direct Investment
GDI	Gender- Related Development Index
GDP	Gross Domestic Product
GEM	Gender Empowerment Measure
GTZ	German Technical Cooperation Agency
HDI	Human Development Index
HDR	Human Development Report
HIES	Household Income Expenditure Survey
HPI	Human Poverty Index
ILO	International Labour Organization
IPEC	International Programme on the Elimination of Child Labour
LFS	Labour Force Survey
LSMS	Living Standards Measurement Survey
MCC	Mongolian Chamber of Commerce
MDGs	Millennium Development Goals
MECS	Ministry of Education, Culture and Science
MIT	Ministry of Industry and Trade
MoF	Ministry of Finance
MoH	Ministry of Health
MONEF	Mongolian Employers' Federation
MonFemNet	National Network of Mongolian Women's NGOs
MSWL	Ministry of Social Welfare and Labour
NGO	Non-Governmental Organization
NRC	National Rehabilitation Centre
NSO	National Statistical Office
NUM	National University of Mongolia
PLSA	Participatory Living Standards Assessment
PPP	Purchasing Power Parity
PREF	Poverty Research and Employment Facilitation project
PTRC	Population Teaching and Research Center
RHS	Reproductive Health Survey
SES	School of Economic Studies
SIDA	Swedish International Development Cooperation Agency
SMEs	Small and Medium Sized Enterprises
SSIGO	State Social Insurance General Office
SWTS	School to Work Transition Survey
TERA	Transportation and Economic Research Associates
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNIFEM	United Nations Development Fund for Women
USA	United States of America
USAID	United States Agency for International Development
VET	Vocational Education Training
WHO	World Bank

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While the gap between countries and regions is widening as a result of globalization process, employment and poverty still remain the most important issues in Asia where 60 percent of the world labour force reside. Internationally, employment is commonly recognised as a crucial policy issue of any country's economic and social development.

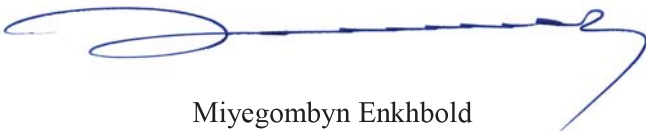
Mongolian government, through its National Development Policy based on the Millennium Development Goals, and Government Plan of Action, aims to develop and implement the comprehensive policies to support families in order to promote all aspects of Human Development, including employment promotion and reduction of poverty and unemployment. Mongolian Human Development Report 2007, "Employment and Poverty", will certainly make valuable contributions into the above mentioned goals of the Government. The Report once again proves that the most effective way to come out of poverty that spread so wide in society today is decent and productive employment.

This is the fourth National Human Development Report of Mongolia that reflects the views of independent scholars. The current report is an important piece of document because it addresses poverty and employment that are considered two most important components of the human development concept.

The Report has placed a special emphasis on improvement of job qualities making it more decent, investing in human development, implementing effective human resource allocation policy, reducing gender gaps and supporting employment opportunities in rural areas. This report has also considered the link between internal migration and employment and poverty issues. In addition, it analyzed employment status of different population groups such as youth, women, people with disabilities, herders, informal sector employees. It further provides conclusions and timely recommendations on their skills development and creating favorable conditions for employment of these afore mentioned groups, and as well as on elimination of challenges for poverty reduction and tackling alcoholism. Recommendations given in the report are very crucial at the moment and should be considered for implementation.

The Mongolian Human Development Report 2007 is an important document to make implementation of actions and services aimed at reducing poverty and unemployment among the population. This will be in line with the national goal of the Comprehensive National Development Policy of Mongolia, Economic Growth and Poverty Reduction Strategy Paper and the "Employment Promotion and Job Creation" strategies of the Government of Mongolia.

On behalf of the Government of Mongolia and personally, I would like to express my sincere gratitude to international and national scholars and experts, staff of the governmental and non-governmental organizations, and other contributors, and as well as to the United Nations Development Programme and International Labour Organization who provided their valuable expertise and ongoing support for completion of this Report.



Miyegombyn Enkhbold
Prime Minister of Mongolia

UNDP and ILO are pleased to introduce the fourth National Human Development Report (NHDR) of Mongolia. Since 1990, UNDP has been supporting the preparation of annual Global Human Development Reports, which have served as analytical and policy advocacy tools designed to promote the concept of human development. Since 1992, commissioned by UNDP, NHDRs have been prepared and owned by independent national teams in about 135 countries, with focus on emerging human development issues in a country specific context.

In Mongolia, the first NHDR was produced in 1997 to assess the Mongolian people's well being in the transition period. The second NHDR 2000 analysed the role of the state in modern Mongolia and people's expectation towards the state. The last NHDR in 2003 focused on urban – rural disparities.

The fourth NHDR's theme, "Employment and Poverty", was selected through consultative meetings. The theme is extremely timely in the new economic era for Mongolia, where, despite the recent strong economic growth, income poverty remains high both in rural and urban areas, and rising inequalities are resulting in unsuccessful knock-in to prevalence of poverty. In fact, the national Millennium Development Goals (MDGs) Report of 2007 indicates that the critical MDG 1 target of a 50 per cent reduction in the share of the population who are in poverty is in danger of being missed.

According to the Human Development concept, economic growth is a necessary condition for development. However, growth in itself does not translate in reducing poverty and improving people's quality of life. The ILO advocates the approach of "working out of poverty" through the decent work agenda as a means for meeting the first MDG target. International experience has demonstrated that rapid growth can lead to strong poverty reduction only through expansion of decent work – the creation of more and better jobs. In other words, decent work enables poor people to maximize their own labour power, the main resource which they possess.

In this context, the Report highlights the needs for a pro-poor employment policy and a strategy, which promotes integration of poor and marginalized men and women in the growth process so that they can equitably benefit from it. Further, the Report emphasizes that the key aspect of employment promotion is not only the number of new jobs, but also the quality and location of those jobs, and the need to build the capacity of Mongolia's working age population, especially the youth to be able to take advantage of these job opportunities.

UNDP and ILO would like to thank the national authors, editors, and advisory group members for their diligence in compiling this important report. We would like to extend our special thanks to Dr.S.R Osmani, Professor of University of Ulster, for his intellectual contribution and advice.

The NHDR on Employment and Poverty presents a number of important recommendations. It is extremely important that the Government, employers' organisations and trade unions, as well as other stakeholders remain committed to continue to develop and implement, policies and programmes to achieve the MDGs targets. For this, the United Nations in Mongolia stands ready to provide its continuous support.

Pratibha Mehta
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Introduction: A New Era for Human Development in Mongolia

Mongolia has entered into a new era in its development. As presented in Table1, Mongolia's Human Development Index (HDI) is now at its highest level ever, and has increased in every region of the country. The economy is growing rapidly, budget revenues and expenditures are far more robust than at any time in the last 20 years, foreign trade and investment are soaring and the country's financial sector is rapidly deepening.

Another key set of yardsticks for assessing development is the Millennium Development Goals (MDGs). Mongolia has accepted the 2000 Millennium Declaration with appreciation and has adapted the MDGs to Mongolia's own specific conditions, through the setting of goals and targets, policies and measures and national programmes aimed at their implementation.[1] In addition to the eight global goals, the Government of Mongolia has committed to achieve a national MDG-9, on Human Rights and Democratic Governance. The Government has set itself 25 targets to be achieved by the year 2015, and achievement of many of these targets is on track, including the vital infant and maternity mortality goals.

At the same time there are worrisome signs. There are only 7 years to go to the 2015 target date for achieving the MDGs and a small number of MDGs – including the critical MDG-1, a 50 per cent reduction in the share of the population who are in poverty – are in danger of being missed. The latest poverty estimate indicated that despite some recent progress, 32.2 per cent of Mongolian households are still below the poverty line, an alarmingly high number.

Another MDG indicator, the school enrolment ratio, is showing signs of regressing, instead of improving.

The Government of Mongolia recognizes the urgency of achieving the MDGs and moving determinedly in implementing the necessary economic and social policies and programmes to make this happen.

It is clear that even the remarkable economic progress of recent years is not enough in itself to achieve some critical social development goals. This distinction between economic growth and the improvements in people's lives that growth can create lies at the heart of the concept of Human Development.[2] This concept was formulated in the late 1980's, under UNDP auspices, in response to a sense that although most people agreed that income is only good if used for good purposes – to buy milk, for example, instead of alcohol – still, economic development around the world was generally being assessed only in terms of the speed of economic growth, and the faster a country's Gross Domestic Product (GDP) was growing the more successful its development was considered. And yet it was already recognized that some countries had achieved great progress in many key indicators of development – longevity, literacy, employment, etc. – despite relatively slow economic growth, while some rapid growth countries were making less progress in improving the welfare of their populations. Thus the concept of human development was created, based on the central idea that economic growth is not an end in itself, but only a means to an end.

Growth is a vital prerequisite for development, certainly, but it only achieves its real purpose when it is used to enhance the capacity of women and men to live full lives, to enjoy good health, education, the dignity that comes from having a fulfilling job and the freedom to make one's own choices and pursue one's own wishes.

[1] *Government of Mongolia. National MDG Report of Mongolia 2007.*

[2] *UNDP. 1990 "Defining Human Development", Human Development Report 1990.*

Why is it that in Mongolia today strong economic growth is not leading to the anticipated impact on poverty? International experience has demonstrated that expansion of decent employment – the creation of more and better jobs – is the key channel by which rapid growth can lead to strong reductions in poverty, because employment allows poor people to take advantage of their labour power, the main resource which they possess. Consultations with a broad range of stakeholders revealed a broad consensus that for many Mongolian men and women economic growth is not yet fulfilling this role; that not enough jobs are being created, that too many of the jobs that are created do not offer good enough compensation and working conditions to allow families to rise out of poverty, that jobs are not being created in places where poor people live, and that in many cases Mongolian workers do not possess the skills that are needed to take advantage of employment opportunities that are being created. Further actions are needed, building on existing policies and on international best practices, to realize the vision of the Mongolian Constitution, which recognizes the right of each citizen to decent employment.

Box 1

The citizens of Mongolia are guaranteed to enjoy the right to free choice of employment, favorable conditions of work, remuneration, rest and private enterprise. No one shall be subjected to forced labor.

Source: The Constitution of Mongolia. Article 16-4

1. Status of Human Development

All key Mongolian human development index components – life expectancy, literacy, school enrolment and GDP per capita indicators have risen since the last Mongolia Human Development Report in 2003. The national HDI has now attained its highest level ever, at 0.718, making Mongolia a medium Human Development nation with social indicators considerably more advanced than the average country with the same level of per capita GDP.

Box 2

The Human Development Index (HDI)

Since publication of the first Human Development Report in 1990 the human development level of different countries in the world has been measured by the HDI. The HDI is calculated on the basis of the following three basic dimensions of human life:

- Life expectancy at birth to represent the dimension of a long and healthy life;
- Two variables to represent the knowledge dimension, adult literacy rate (2/3 weight) and combined enrolment ratio at primary, secondary and tertiary levels (1/3 weight);
- Real GDP per capita (PPP$) to serve as a proxy for resources needed for a decent standard of living.

HDI is a simple arithmetic mean of educational attainment, health and income indexes.

While HDI is a useful indicator of human development, it needs to be supplemented by other data and careful analysis of social and economic processes in order to form a judgment about what is happening to the well-being of people. For example, it does not capture income poverty trends or inequality.

Source: Mongolia Human Development Report 2003

In 2004 Mongolia's international ranking in terms of HDI was 116 out of 177 countries.[3]

Even more impressively, the Human Development Index has risen for every *aimag* in the country, and the human development gap between wealthier and poorer *aimags* has narrowed.[4]

Table 1 **Human development index by aimag and city, 1999-2006**

Aimags and the Capital	1999	2000	2001	2002	2003	2004	2005	2006
Arkhangai	0.637	0.643	0.631	0.625	0.629	0.643	0.660	0.675
Bayan-Olgii	0.627	0.640	0.636	0.629	0.643	0.652	0.677	0.690
Bayankhongor	0.614	0.617	0.635	0.572	0.595	0.617	0.645	0.658
Bulgan	0.671	0.678	0.666	0.655	0.657	0.670	0.682	0.692
Govi-Altai	0.620	0.635	0.632	0.588	0.613	0.646	0.659	0.657
Dornogovi	0.637	0.646	0.623	0.630	0.638	0.653	0.662	0.670
Dornod	0.587	0.595	0.593	0.600	0.617	0.622	0.636	0.648
Dundgovi	0.666	-	0.651	0.643	0.665	0.674	0.689	0.701
Zavkhan	0.622	0.619	0.631	0.614	0.636	0.642	0.664	0.676
Ovorkhangai	0.630	0.605	0.593	0.594	0.613	0.631	0.655	0.668
Omnogovi	0.656	0.660	0.659	0.631	0.673	0.674	0.710	0.725
Sukhbaatar	0.643	0.651	0.626	0.637	0.661	0.672	0.691	0.701
Selenge	0.650	0.645	0.650	0.656	0.660	0.668	0.676	0.689
Tov	0.652	0.646	0.664	0.628	0.654	0.659	0.670	0.680
Uvs	0.608	0.605	0.611	0.605	0.627	0.646	0.659	0.672
Khovd	0.633	0.651	0.664	0.632	0.643	0.660	0.676	0.686
Khovsgol	0.607	0.614	0.593	0.587	0.599	0.614	0.628	0.643
Khentii	0.646	0.655	0.635	0.632	0.647	0.661	0.677	0.683
Darkhan-Uul	0.634	0.644	0.666	0.659	0.663	0.664	0.682	0.689
Ulaanbaatar	0.705	0.707	0.711	0.722	0.722	0.722	0.734	0.745
Orkhon	0.732	0.751	0.700	0.724	0.759	0.793	0.802	0.805
Govisumber	0.673	0.678	0.689	0.644	0.675	0.709	0.714	0.718
TOTAL	0.661	0.667	0.667	0.667	0.680	0.692	0.707	0.718

Source: 1999 data taken from 2003 NHDR, 2000-2006 data from NSO

This broad increase in the HDI has occurred simultaneously with the first sustained strong economic growth since Mongolia launched its transition to a market economy in 1990, with an extraordinary increase in budget resources and spending – a doubling of total government spending in the three years from 2003 to 2006 and with very rapid growth of the role of the banking sector, with a near tripling of total outstanding loans in those three years.

Despite improvements in many economic and social indicators, income poverty has stayed at roughly the same high level for a decade. The most recent data, not based on full household living standards measurement surveys, indicate poverty incidence of 32.2 per cent as of 2006, only slightly lower than the 35.3 per cent incidence reported by the 2002-2003 Living Standards Measurement Survey (LSMS). There have also been slight improvements in poverty gap and poverty severity. Although these recent improvements are mildly encouraging, high levels of income poverty remains as Mongolia's greatest policy challenge.

There are other warning signs, particularly in education, that the accelerated growth of recent years is leaving behind a significant number of Mongolian people. For example, according to the school-to-work transition survey conducted by the National Statistical Office in 2006, 3.3 per cent of young people aged 15–29 years had not completed their primary education with a much larger share (6.4 per cent) in rural areas. For Mongolia as a whole, the figure for boys (4.6 per cent) was twice that for girls (2.1 per cent).[5]

School dropouts are at risk of becoming child labourers who may be denied a normal childhood and human capital needed to find productive employment at a later age, thus perpetuating the cycle of poverty. National MDG Report 2007 has noted a worsening in the number of children who are failing to complete Grade 5 education. The school dropout rate has increased in 2006, according to the National Statistical Office (NSO).

[3] *UNDP. Human Development Report 2006, New York 2006, based on 2004 HDI data.*

[4] *The five aimags whose HDIs were lowest in 2000: Uvs, Bayankhongor, Dornod, Ovorkhangai and Khovsgol, had an average increase of 8.4 per cent by 2006, higher than the national average, with only one of them, Khovsgol rising more slowly than the national average. Ulaanbaatar's improvement was among the slowest, interestingly, reflecting challenges in absorbing the increasing number of internal migrants. The HDI of Orkhon, the aimag with highest HDI, has continued to rise very rapidly due to rapid growth in income from the large copper exporting firm Erdenet Mining Corporation.*

[5] *Francesco Pastore, International Iabour Organization (ILO) Working Paper, Draft, June 2007.*

Table 2 **Gross enrolment rates and drop outs, Mongolia, 2003-2006**

Indicators	2003-2004	2004-2005	2005-2006	2006-2007
Gross enrollment rates (percentages)				
Generel education	98.0	97.6	92.3	93.7
Primary education	103.5	102.4	93.3	93.5
Secondary education	93.1	93.4	91.2	93.8
Number of drop-outs per thousand				
Total	12.0	10.8	9.0	12.3
Of which female	4.9	4.3	3.6	4.8
Drop-out ratio	2.3	2.0	1.6	2.2

Source: NSO, Mongolian Statistical Yearbook, 2003-2006

Higher drop-out rates in rural areas reflect a number of factors, including higher poverty incidence leading to pressures on children to work, the ease with which children's labour can be employed in livestock herding, and also the gap in quality between urban and rural schools in terms of facilities. Although urban and rural teachers salary are the same, the total resources available for improving the quality of education are much lower. Studies show that student performance is lower in soum schools than aimag centres, and weaker in poorer soums than richer ones measured in terms of poverty incidence.[6]

Similar problems exist in rural health care provision. Most doctors and hospital beds are located in the large urban areas or in aimag centres. Soum and other smaller administrative units frequently lack resources to provide quality medical services in remote areas. One survey revealed that in 2001, 44 soums in 15 aimags had no doctors and an additional 77 soums in 19 aimags had an inadequate number of doctors; 35 per cent of all soum ambulances and 39 per cent of all aimag ambulances failed to meet national standards and were no longer serviceable.[7]

High rates of poverty in the face of strong economic growth are a sign that inequality is increasing, and that a large share of the benefits of growth going to those already well off.

Recent estimates of income inequality confirm this. Table 3 shows trends in inequality across the country, between regions and by urban-rural classification. Calculations are based on consumption trends, a more meaningful measure of living standard than income, and use the Gini Coefficient as the measure of inequality, for which higher values indicate higher inequality. Between 2003 and 2006 there was a sharp increase in national inequality, as well as intra-urban and intra-rural inequality. While the rise in inequality was slower in the Western and Hangai regions, and in Ulaanbaatar, it was large in all areas.

Table 3 **Consumption inequality Gini coefficient, 1998-2006**

Indicators	1998	2002-2003	2006
National average	0.350	0.329	0.380
Urban		0.331	0.386
Rural		0.313	0.360
Region			
West		0.306	0.342
Khangai		0.320	0.354
Central		0.314	0.393
East		0.317	0.399
Location			
Ulaanbaatar		0.332	0.367
Aimag centres		0.324	0.389
Soum centres		0.318	0.373
Countryside		0.309	0.346

Source: NSO. HIES/LSMS. 1998, 2002/03, Mongolian Statistical Yearbook, 2006

Rising inequality is a sign that the strong growth of recent years is not generating enough good jobs to raise the living standards of most of Mongolia's poor women and men.

What should be done to reverse the above trends and allow more of Mongolia's people to share in the benefits of economic growth? As analyzed by Dr. S.R. Osmani, the three key factors that determine the strength of the linkages between growth and poverty reduction may be called, respectively, the growth factor, the elasticity factor and the integrability factor.[8]

[6] *The World Bank. Mongolia poverty assessment, Report No. 35660-MN, Poverty Reduction and Economic Management East Asia and the Pacific Region, 13 April 2006, p. 41.*

[7] *ibid*

[8] *Dr. S.R. Osmani. A Background paper. 2006. "Towards an Employment-Oriented Pro-Poor Development Strategy for Mongolia".*

The growth factor refers to the need for economic growth; the elasticity factor refers to the extent to which any particular growth process is able to generate sufficient quantity and quality of employment.

Box 3

The rural poor are seriously disadvantaged in securing access to health services

"When there is a need for medical attention, first you have to call and get a check-up by the bag nurse. To bring the nurse you need to travel at least 1-2 hours by horse. The bag nurse has no vehicle, so has to ride back with you. Based on her diagnosis, if you need emergency services from the soum centre you have to travel another 4 hours on horseback. By this time the patient's condition may have worsened. If the bag nurse doesn't give a referral, the soum emergency services won't come. If the patient's family insists they have to pay the cost of transport both ways."

Source: NSO. 2001. Participatory Living Standards Assessment

The critical integrability factor refers the extent to which poor people possess the capacity to integrate fully into the workings of an expanding economy.

In Mongolia today the need for economic growth is being met, and seems likely to be sustained. From the perspective of the elasticity and integrability issues, however, there are four key aspects of employment creation that need to be factored into policy-making:

1. The number of jobs being created – are there enough new openings for new workers, for those who are currently unemployed or underemployed, and for those who are moving from rural to urban areas?

2. The quality of jobs being created -- do they offer a reliable and sustainable path out of poverty for poor families? Is the level of real wages high enough to support decent lives for workers and their families?

3. The location of jobs being created – are jobs being created where workers, and specifically poor people in search of employment, are able to access them?

4. The capacity of Mongolia's working age population to engage in productive work – do they have the training, the skills and the sound health necessary to take advantages of new opportunities that are present?

If the Government is prepared to make a strong commitment to orient public policy and budget spending toward employment-based poverty reduction, conditions are in place for major achievements. This should work from a review of the National Employment Law adopted in 2001 and amended in 2007, the National Employment Promotion Programme approved in 2002 and the National Plan of Action for Decent Work (2005-2008). There is also valuable international experience to draw upon, which has demonstrated clearly that policies matter – governments that focus on employment generation and Decent Work can have an enormously positive impact on the lives of their people. Mongolia's very strong budget position, and prospects for continued economic growth and robust fiscal conditions offer options to policy-makers that were not present even five years ago.

Box 4

National Plan of Action for Decent Work in Mongolia (2005–2008)

The National Plan of Action for Decent Work was adopted in 2005 by the Ministry of Social Welfare and Labour, the Mongolian Employers' Federation and the Confederation of Mongolian Trade Unions. The plan links outputs, identifies funding and includes indicators to promote decent work through: (i) ensuring basic human rights and labour rights to improve employment and social security; (ii) increasing jobs and incomes in all sectors; (iii) implementing social insurance schemes and (iv) developing mechanisms for social dialogue.

Source: Government of Mongolia. 2005. Action Plan on Decent Work

One fundamental and overriding prerequisite for employment-based poverty reduction in Mongolia will be stronger investment in the capabilities of people so that they can both create and also take full advantage of the opportunities that arise during development. Without education and training, and without good health, Mongolia's poor and vulnerable population will be unlikely to be able to rise out of poverty, even if the overall economy is growing rapidly. While there is also now considerable private spending in education and health, at this stage of development Mongolia must still depend on government to bear the great bulk of the spending responsibility for basic services such as compulsory education and primary health care, particularly to ensure that low-income groups have access to these services. An explicit agenda of targeting education and health spending in poor areas as a top priority needs to be implemented, and will offer a return both in the social benefit of reduced poverty and an economic return through a more productive workforce.

The large proposed increases in spending in education and health sectors in the draft 2008 budget are very encouraging, but attention must be paid to ensuring that these additional expenditures are targeted where they are most needed; in rural areas and in poorer urban areas, and that essential services are accessible to the poorest groups whose ability to pay is tightly constrained. Without strong and sustained increases in government investment in Human Development, the recent trends toward rising inequality and a large pool of poverty-stricken households will be impossible to reverse.

Recommendation 1

Expand investment in human development

- Reduce the urban-rural gap in core public services such as education, health, sanitation and water
- Reduce the public service gap within urban areas between migrants and other residents
- Increase the targeting of education and health care expenditures so that they focus on poor population that are being left behind, especially rural areas and ger districts
- Reduce or eliminate fees that are charged to poor people for core public services, such as health care and education
- Continue to increase government spending in social sectors

2. Linkages Between Poverty and Employment

2.1 Unemployment and poverty[9]

High poverty among the unemployed shows that *more* jobs are needed.
High poverty among the employed shows that *better* jobs are needed.

According to statistics compiled by the labour and social welfare offices, unemployment has remained stable at around 3.5 per cent for the last five years. This is clearly a low rate by international standards, but there is widespread recognition in Mongolia that these official figures underestimate the true magnitude of unemployment in the country.

The most recent data in the Mongolian statistical yearbook count 32,928 registered unemployed in 2006 of whom 43.0 per cent were male and 57.0 per cent were female. This equals an unemployment rate of 3.2 per cent of the labour force, a number that, on the surface, seems to suggest that unemployment is not a problem in Mongolia.

However the shortcomings of official unemployment statistics are widely recognized. As is the case in many countries, the official unemployment rates calculated from administrative records do not follow international standards, and count only job seekers who register themselves as without work and seek employment with the labour and social welfare offices. Yet household surveys show that most unemployed Mongolians do not pursue this route in searching for employment, because of the limited number of new jobs offered there.

A more reliable estimate of unemployment can be obtained from labour force surveys canvassed over a nationally representative sample of households.

[9] *This report makes use of the most recent available data. For detailed household-level analysis of labor market and poverty trends, the most recent detailed data sources are the 2002-2003 Labor Force Survey, published by the NSO in 2004, and the 2002-2003 Living Standards Measurement Survey, also published in 2004. Wherever possible the findings from those surveys have been updated with more recent data.*

The first such survey was conducted in Mongolia in 2002–2003 and determined a much higher unemployment rate of 14.2 per cent. Yet another different estimate based on a survey of a nationally representative sample of households was obtained from the living standards measurement survey (LSMS) of the same year (2002–2003). That survey indicated an unemployment rate of 6.6 per cent.

These different results are a reflection of different definitions of "unemployment", which we summarize in Table 4. Each is valid and useful, so long as properly understood:

Table 4 **Measures of unemployment, 2002-2003**

Source and concept of unemployment	Unemployment rate (%)
Official statistics calculated by labour and social welfare offices-registered unemployed only	3.4
Living standards measurement survey following the "strict" definition - counting persons without work, available for work and actively seeking work	6.6
Labour force survey using the "relaxed" definition- counting all persons without work and available for work who may or may not be looking for employment	14.2

Source: ADB and NSO, Employment Survey, 2004, page 62, NSO. LSMS 2002/2003, page 60

When examining unemployment rates it is also helpful to bear in mind that herders comprise 35 per cent of the labour force, and although poverty among herder households is high, at 39.2 per cent, herders report virtually no unemployment. If one excludes herders and calculates the unemployment rate in the rest of the workforce – the workers for whom unemployment is a relevant possibility – the resulting unemployment rates are higher by more than 50 per cent.

Table 5 **Unemployment rates by poverty status in Mongolia: 2002-2003**

	Poor	Non-Poor	All
National	10.2	4.9	6.6
Urban	15.9	6.8	9.1
Rural	6.5	2.6	4.1

Source: NSO. HIES/LSMS, 2002/2003

The relationship between unemployment and poverty in Mongolia can be summarized as follows: *the unemployed are far likelier to be poor than the employed, but they still make up only a very small share of the poor.* The LSMS of 2002-03 shows that the poor do have a higher rate of unemployment than the non-poor – 10.2 per cent as against 4.9 per cent, nationwide, and 15.9 per cent vs. 6.8 per cent in urban areas. But the fact that across the country only one in ten poor people is unemployed shows that lack of employment is not the main cause of poverty in Mongolia. Even in urban areas, where one in six poor people are unemployed, the vast majority of the poor are engaged in some kind of work. The wide gap between the poverty and unemployment rates indicate that poverty is a much more widespread phenomenon than unemployment. In short, most of the poor in Mongolia are 'working poor' instead of being unemployed.

Recommendation 2

Strengthening data collection for more effective employment policy-making

- Establish employment data standards, definitions and practices that are consistent with international standards, including in measurement of unemployment, informal employment and youth employment
- Conduct labor force assessments following international standards quarterly or annually, to give policy-makers and other stakeholders up-to-date information on employment trends
- Link labor force surveys to household income and expenditure surveys and living standards measurement surveys, to produce more information about the working poor
- Gather and report full gender-disaggregated employment data
- Establish a programme of regular and ad hoc establishment-based surveys and censuses

2.2 Employment and poverty – analyzing the key linkages

The powerful link between poverty reduction and employment generation was acknowledged at the September 2005 World Summit, when world leaders committed themselves to achieving four additional targets to the ones included in the Millennium Declaration. Among them was to "Achieve full and productive employment and decent work for all, including women and young people." The new employment target is included under Goal 1: Eradicate Extreme Poverty and Hunger, and explicitly recognizes the central place of decent work in poverty reduction. It replaces Target 16 under Goal 8, "In cooperation with developing countries, develop and implement strategies for decent and productive work for youth". This new target expands the concept of decent and productive work to the whole population, regardless of age, while still drawing specific attention to the difficulties experienced in the labour market by women and young people. The new target also introduces the concept of full employment, again extending its coverage to the whole population.

Data on employment and unemployment are based on the economic activities of individuals while poverty statistics are calculated for household units. The data from the household income and expenditure survey/living standards measurement survey (HIES−LSMS) of 2002-2003 give some clues to link poverty and employment through information about the household head. However, these do not take into account

the composition of the household in terms of how many members are working. In some cases, the household head is not the principal breadwinner. Despite these limitations, the LSMS results allow a comparison of poverty status by: (i) households headed by a herder, (ii) households whose head is employed in non-herding activities, (iii) households headed by an unemployed individual[10], and (iv) households headed by a person who is not economically active, but is not a pensioner, and (v) households headed by pensioners. Table 6, based on the 2002–2003 LSMS, presents some key findings regarding poverty among these groups.

Table 6 **Poverty and sector of occupation of the household head**

	National	Employed		Unemp-loyed	Out of labour force	
		Herders	Others		Pensioners	Others
Headcount	36.1	39.2	30.3	48.7	35.7	51.4
Poverty gap	11.0	11.4	8.6	16.7	10.9	19.2
Severity	4.7	4.5	3.5	7.4	4.7	9.6
Memorandum items:						
Household size	4.3	4.2	4.4	4.7	3.9	4.6
Dependency ratio,%	43.3	45.0	38.0	42.2	57.0	37.5
Children (% household size)	31.2	32.6	34.7	40.9	17.1	34.4
Age of household head	44.5	41.1	41.0	37.7	61.9	39.6
Male household head,(%	82.5	88.6	85.5	86.3	63.1	86.8
Share of those below poverty line,%	100.0	28.8	37.8	4.0	15.6	13.8
Population share	100.0	26.5	45.0	3.0	15.8	9.7

Source: NSO, LSMS 2002/3, pags 25

As presented in the line "Share of those below the poverty line", the share of the total poor in Mongolia for each of these five categories of household head employment is: herders (28.8 per cent), employed in other activities (37.8 per cent), unemployed (4 per cent), pensioners (15.6 per cent) and economically inactive non-pensioners (13.8 per cent).

[10] *As noted in Table 4, the LSMS defined unemployment using the "strict" international standard which calculated a 6.6 per cent unemployment rate.*

Although the share of unemployed-headed households in the total poor population is quite low, poverty incidence among households with an unemployed head is nearly 50 per cent.

The fact that 37.8 per cent of poor households are headed by fully employed individuals who are not engaged in herding is particularly striking here. As this covers such a broad range of types of employment, it is useful to further disaggregate those households according to their type of employer. The results are presented in Table 7.

Table 7 **LSMS data for household poverty by houshold head's type of**

	Private	Public	State
Headcount	34.7	25.9	21.6
Poverty gap	9.9	7.5	4.9
Severity	4.1	3.0	1.7
Memorandum items:			
Household size	4.4	4.5	4.5
Dependency ratio,%	39.4	37.2	32.2
Children (% household size)	36.0	33.5	31.6
Age of household head	40.0	42.3	41.4
Male of household head,%	87.3	82.0	91.6
Share below PL,%	23.2	12.8	1.8
Population share	24.1	17.9	3.0
Poverty likelihood ratio	1.0	0.7	0.6

Source: NSO, LSMS 2002/03, page 25

For each group we have calculated a "poverty likelihood ratio"; the ratio of that group's poverty incidence to that of the overall population. A value greater (less) than one indicates that households in that group are more (less) likely to be poor than the average household.

These ratios are:

Households headed by herders – 1.09

Households headed by individuals employed in other activities – 0.84, of which

those headed by private sector employees– 0.96

those headed by public enterprise employees– 0.72

those headed by state employees[11] – 0.6

Households headed by unemployed – 1.33

Households headed by economically inactive – 1.42

Households headed by pensioners – 0.99

According to these calculations households with economically inactive heads of household – individuals who are neither employed nor seeking employment – are the group with the greatest risk of poverty, while households with unemployed heads facing only slightly lower risk. Herders are also at notably greater risk than the average household, while heads of household employed in non-herding activities are considerably less likely to be poor than the average household.

These data on linkages between employment and poverty provide an analytical foundation for the discussion that follows. Specifically, when sorting households by the employment status of their head we have identified three distinct groups for whom the risk of poverty is considerably higher than the average: herders, the economically inactive and the unemployed. These three groups together comprise 39.2 per cent of the population, and 46.6 per cent of the country's poor. In addition we have found that the poverty incidence of non-herding households whose head is employed in the private sector is also surprisingly high – nearly as high as that of the population as a whole. This is another reflection of widening inequalities in society; although private sector employment is generating high incomes for many Mongolian families, the high incidence of poverty among other such households suggests the existence of a large number of jobs whose compensation is too low to keep their employees' households out of poverty.

Indeed, the fact that at the time of the 2002-2003 LSMS households headed by government employees had a poverty incidence of 21.6 per cent, while lower than that of any other group here, is also revealing of the extremely low real wage level that prevailed in Mongolia since the early 1990s.

3. Job Creation Trends – How Many, Where and How Well Paid?

An examination of recent employment data shows clearly that more rapid economic growth is not creating enough jobs, and the right jobs, to give a strong boost to poverty reduction. Table 8 shows job creation trends for the years 2000-2006, including overall numbers of jobs created in this period, and then a breakdown into 2000-2003 and 2003-2006. We see that even as growth accelerated sharply in 2004 the pace of job creation slowed by nearly 30 per cent, with only 83.4 thousand net new jobs being created in 2003-2006, compared to 117.5 thousand in 2000-2003. Even more striking is that the stronger net job creation in 2000-2003 occurred even as the number of herders fell by over 43.5 thousand, whereas in 2003-2006 the number of herders declined by less than 13.5 thousand. The increase in employment outside of the herding sector in 2003-2006 was 97 thousand, compared to 161 thousand in 2000-2003.

[11] *It is noteworthy that these findings reflect conditions in 2002–2003, just before the government launched a series of large pay increases for government workers. When 2006 and 2007 data are available they are likely to show a sharp further decline in poverty in this group of the population.*

Table 8 **Change in employment by industrial classification, Mongolia, 2000-2006**

(Increase in jobs in thousands, and in %)

Industrial	2000-2006		2000-2003		2003-2006	
	Employ-ment	% change	Employ-ment	% change	Employ-ment	% change
Agriculture, hunting and forestry	-2.1	-0.5	-6	-1.5	3.9	1.0
Mining and quarrying	23.3	125.3	13.3	71.5	10	31.3
Manufacturing	-7.6	-13.9	0.3	0.5	-7.9	-14.4
Electricity, gas and water supply	12.2	68.5	4.9	27.5	7.3	32.2
Construction	32.9	140.6	11.7	50.0	21.2	60.4
Wholesale and retail trade, repair of motorvehicles. Motocycles and personal goods	76.7	91.4	45.8	54.6	30.9	23.8
Hotels and restaurants	17.7	133.1	10	75.2	7.7	33.0
Transport, storage and communication	7.1	20.8	5.4	15.8	1.7	4.3
Financial intermediation	10	147.1	5.8	85.3	4.2	33.3
Real estate, renting and business activities	4.8	66.7	2.1	29.2	2.7	29.0
Public administration and defence, compulsory social security	12.2	35.2	10.1	29.1	2.1	4.7
Education	7.6	14.0	0.9	1.7	6.7	12.1
Health and social security	5.8	17.3	3.3	9.9	2.5	6.8
Community, social and personal services	-6.1	-21.0	8	27.6	-14.1	-38.1
Others	6.4	152.4	1.9	45.2	4.5	73.8
Total	200.9	24.8	117.5	14.5	83.4	9.0

Source: NSO. Mongolia Statistical Yearbook, 2000-2006

The location of the jobs that have been created offers another reason why poverty rates remain high. The data on new job creation in Table 9 show that between 2000 and 2003, 36.6 per cent of new jobs were created outside of Ulaanbaatar. However in 2003-2006 that share fell by more than half, to 17.0 per cent. In 2000-2003, 43 thousand net new jobs were added outside of the capital, but in the next three years that number fell to only 14.2 thousand. It is not surprising that rural poverty has been increasing during this period, under these circumstances.

Table 9 **Net employment creation, thousand, by location, Mongolia, 2000-2006**

	Total	Herders	Non-herders
2000-2006			
TOTAL	200.9	-57.9	257.9
Ulaanbaatar	143.9	0.9	143.0
rest of country	57.0	57.9	114.9
2000-2003			
TOTAL	117.5	-43.5	161.0
Ulaanbaatar	74.7	0.06	74.6
rest of country	42.8	-43.6	86.4
2003-2006			
TOTAL	83.4	-13.6	97.0
Ulaanbaatar	69.2	0.9	68.3
rest of country	14.2	-14.4	28.6

Source: NSO, Mongolia Statistical Yearbook, 2000-2006

The share of total employment in low-paying sectors continues to be very high, although new job creation in some higher wage sectors is accelerating as well. Table 10 presents data on current distribution of jobs, the pace of job creation, and salary and productivity trends according to the sector of employment.

Table 10. **Job creation, wages and productivity by sector, 2003-2006**

Industrial classification	Percentage of total employment	Annual percentage change in total jobs	New jobs created	Share of new jobs	Monthly salary, in thousand togrogs	Annual percentage change in salary	Labour productivity, at current price, in thousand togrogs	
	2006	2003-2006	2003-2006	2003-2006	2006	2003-2006	2003	2006
Agriculture, hunting and forestry	38.8	1.0	3.9	4.7	65.8	11.1	756.0	1,494.1
Mining and quarrying	4.1	9.5	10.0	12.0	146.1	18.1	6,673.9	23,328.9
Manufacturing	4.7	-5.0	-7.9	-9.5	124.1	14.5	1,637.3	4,006.7
Electricity, gas and water supply	3.0	9.7	7.3	8.8	139.5	12.8	2,316.2	2,715.7
Construction	5.6	17.1	21.2	25.4	132.8	15.6	1,670.5	1,230.5
Wholesale and retail trade, repair	15.9	7.4	30.9	37.1	85.7	9.9	3,219.4	3,973.7
Hotels and restaurants	3.1	10.0	7.7	9.2	130.7	12.0	563.3	886.4
Transport, storage and communication	4.1	1.4	1.7	2.0	129.7	6.9	5,178.9	8,271.3
Financial intermediation	1.7	10.1	4.2	5.0	255.5	35.0	5,652.2	6,664.9
Real estate, renting and business	1.2	8.9	2.7	3.2	91.6	11.9	2,210.1	3,257.3
Public administration and defence, compulsory social security	4.6	1.5	2.1	2.5	141.3	21.8	1,390.3	2,177.0
Education	6.1	3.9	6.7	8.0	123.6	16.8	1,153.1	1,620.6
Health and social security	3.9	2.2	2.5	3.0	116.5	24.2	714.8	1,203.1
Community, social and personal	2.3	-14.8	-14.1	-16.9	91.3	19.4	501.1	1,019.4
National Average					127.7		1,646.6	3,207.4
n.b. average CPI inflation 2003-6:						8.8		

Source: NSO Mongolian Statistical Yearbook 2006, Ulaanbaatar

These data reveal a number of significant facts about employment, wage and productivity trends:

1. Agriculture and wholesale/retail trade are the two largest sectors by number of jobs, by far, combining to make up 54.7 per cent of total employment. These are also the two lowest paying sectors of employment, with average earnings under 90,000 togrogs per month.

2. Agriculture and wholesale/retail trade also had the slowest annual earnings growth in this period of 11.1 per cent and 9.9 per cent, respectively, during a period when consumer price inflation averaged 8.8 per cent per year.

3. Wholesale and retail trade, a low wage sector, produced the largest share of new jobs; 37.1 per cent. More positively; construction and mining generated 25.4 per cent and 12.0 per cent of the new jobs, respectively, and both also showed strong average wage increases, well above inflation. Among private businesses only those in financial intermediation had a higher average wage increase (35.0 per cent), but that sector only had 1.7 per cent of total jobs in 2006.

4. Government wages in this period were already rising at a pace well above inflation. Productivity rose strongly in sectors that are primarily government-owned, such as health and social security and public administration.

5. Labour productivity in the mining sector is more than seven times, while in transport and finance was more than double, the national average, while productivity in agriculture was less than 50 per cent of the average. The links between productivity and salary are clear in these sectors, however require additional research in some others, including retail and wholesale trade, and construction.

4. A Cross-Cutting Challenge: Employability – Skills and Attitudes

4.1 Skills mismatch

One critical cause of unemployment – particularly among young people – is that the skills job-seekers offer are frequently not the ones that employers are seeking in their workers. This is a particularly urgent problem in youth unemployment, but at the same time is a broader problem affecting large portions of the work force, who do not have the opportunity to receive training in new and marketable skills. As a result, employers in newly emerging sectors are trying to recruit skilled workers but have difficulty finding applicants who are qualified. There is also concern that young people lack basic skills, suitable attitudes and a work ethic. A survey conducted by the Labour and Social Welfare Agency in 2004 found that 71 per cent of companies had difficulties recruiting employees, 80 per cent thought applicants did not have suitable skills and, not surprisingly, 67 per cent replied that jobseekers lacked experience. Employers complained that employees do not demonstrate commitment on the job or ability to adapt noting the absence of a work ethnic and problems with communication skills. Even while a significant number of Mongolian people are unable to find good employment, Mongolia faces significant gaps in filling key jobs critical to economic development, and foreign workers make up a significant proportion of the active workforce in the rapidly growing construction sector.

There are two key sides to this problem:

1. The education that Mongolians are receiving quite frequently does not impart skills that are useful in the job market, and;

2. Specialized vocational training for people in the work force is also not adequately linked to the needs of the workplace.

Technical skills are generally accorded with a low status and little recognition in Mongolia today. Academic education is seen – in many cases mistakenly– as a more helpful path toward lucrative employment, and as more prestigious. As a result most young people choose academic education rather than vocational training despite emerging opportunities in trade occupations and technical jobs. At this time there are more than 140,000 Mongolian students attending universities, a number equal to nearly 15 percent of Mongolia's work force. However many of them are facing serious difficulties in finding employment after graduation.

Imparting young Mongolians with the skills that will help them succeed in the employment market will require improving the school curriculum in those schools, changing attitudes toward vocational training and making vocational training more effective. There is consensus that education and training require stronger links to labour markets. This entails greater participation by employers and workers in reviewing training courses, setting occupational standards, offering on-the-job training and developing bridge programmes between school and work such as through apprenticeships and internships. In order to direct students to training opportunities, guidance counsellors and employment services require labour market information that is timely and practical.

In addition to ongoing labour force surveys with comparable statistics to analyse trends in the labour market, there is a need for information and analysis that are practical and timely to determine the specific needs in emerging sectors.

The problem with negative public attitudes, particularly among young women and men, toward technical jobs and vocational training could be addressed through attention to career guidance and public awareness about the value of technical jobs. As a senior Government official stated, Vocational Educational Training (VET) is not the second or third best human development choice – it is the basis of sustainable technological and advanced technical development".[12] Schools and media can promote the value of practical-oriented, hands-on approaches to developing skills required in the labour market. Competitions can showcase the jobs and careers of youth who succeed in technical vocations.

Recommendation 3

Bridging the skills mismatch between supply and demand in the labour market

- Strengthen links between education and labour markets, through greater participation by employers in reviewing training courses, setting occupational standards, offering on-the-job training and developing bridge programmes between school and work such as through apprenticeships and internships.
- Launch a multi-stakeholder effort to reform vocational education and training to overcome the current mismatch between the skills provided by training institutions and the qualifications sought by competitive enterprises. Involve employers, trade unions, government and schools in this effort.
- Launch a campaign to change attitudes toward vocational education and training, promoting the value of practical-oriented, hands-on approaches to developing skills required in the labour market.
- Create a national council on vocational training, skills standards and certification, involving key stakeholders who will work together to support the development of a legal framework, financing mechanisms, methodological centres, vocational standards, pedagogical issues, certification procedures, teacher training, school management and training facilities among others.
- Under the oversight of this council, establish professional qualification standards that will be of use to Mongolian workers seeking employment at home and abroad

[12] *U. Enkhtuvshin. 2007. Preface to report on High-Level VET Meeting organized by GTZ and the Ministry of Education, Culture and Science, Ulaanbaatar.*

4.2 Alcoholism

Domestic employers as well as foreign companies are increasingly concerned about the "work ethic" of Mongolian recruits. Foreign workers make up a significant proportion of the active workforce in the construction sector that is experiencing high growth. Young people entering the job market need to have a better understanding of the kind of performance, commitment and attitudes demanded by employers.

In discussions with a broad range of stakeholders during the preparation of this report, one question was repeatedly asked; why is it that many Mongolian workers are so successful when they migrate abroad but less so here at home? This is a complex question, and there are many answers to it – surely the higher level of compensation that is generally available abroad is one important factor. Nevertheless, another answer to this question that was frequently raised by Mongolian interviewees was the problem of alcoholism, which is tolerated too readily in Mongolia and which creates large problems for employers and for employees alike.

Recent studies cited below have confirmed the negative impact that alcohol abuse is having on the Mongolian people's lives and their ability to obtain and keep good jobs.

- A recent World Heath Organization (WHO)-funded epidemiological study of alcohol consumption in Mongolia, found that 33.9 per cent of male respondents, and 11.5 per cent of female, advised that at least once in the previous year "drinking or being hung over interfered with [their] work, at school, or a job, or at home".[13]
- The same study found clear positive correlations between heavy alcohol consumption and unemployment and poverty.
- The 2006 Participatory Poverty Assessment found repeated citations of alcoholism as an obstacle to emergence from poverty. Alcoholism is cited as a reason for lack of ability to obtain or maintain employment, to obtain bank credits, and a cause of pessimism about one's ability to rise out of poverty. Urban and rural poor were equally likely to mention alcoholism in this context.
- The 2006 Participatory Poverty Assessment also reported the perception among both urban and rural poor that the severity of alcoholism was increasing, and asked government policy reduce the availability of alcohol, increase its price by taxation and restrict availability of substandard alcoholic drinks and ingredients.

The causative link between unemployment, poverty and alcoholism is complex, and these studies cannot be considered proof that alcoholism is causing poverty and unemployment. However given the seriousness of the problem, and given the frequency with which employers cited this as an obstacle to hiring workers, there is a strong argument to be made for an aggressive government campaign to reduce alcoholism in Mongolia as part of an employment promotion campaign.

Recommendation 4

Reducing a serious obstacle to employment promotion in Mongolia today: Alcoholism

- Launch a national campaign to reduce alcoholism, educating people about its negative social and economic impact on the Mongolian people, with an emphasis on alcoholism as a workplace issue
- Take steps to reduce access to alcohol, by restricting the number and operations of businesses selling alcoholic beverages
- Launch a workplace-based educational program about the harmful effects of alcoholism, involving employers, trade unions and the Government

[13] *WHO Epidemiological study on prevalence of alcohol consumption, alcohol drinking patterns and alcohol related harms in Mongolia. Ulaanbaatar, 2006*

5. Employment and Vulnerability – Challenges Facing Mongolian Youth, Women, Children, People with Disabilities and Migrants

5.1 Youth unemployment – a challenge for a healthy future

About half (50.4 per cent) of the Mongolian population was under 25 years in 2006.[14] That year young people aged 16–24 accounted for 22 per cent of the workforce.[15] The school-to-work transition survey collected data on young people[16] during November and December of 2006.

Table 11 **Young people aged 15–29 by labour force status, Mongolia, 2006**

	Labour force participation rate	Unemployment rate	Employment-to-population ratio	Inactivity rate
No school	57.9	8.1	53.3	42.1
Primary	50.2	7.7	46.3	49.8
Lower secondary (Grades 4-8)	26.2	14.9	22.3	73.8
Secondary (Grades 9-10)	28.4	21.9	22.2	71.6
Vocational technical	65.4	15.3	55.4	34.5
Specialised secondary diploma	67.8	8.1	62.3	32.2
Tertiary and bachelor's degree	77.5	11.6	68.5	22.5
Master's degree and above	79.2	5.4	74.9	20.8
Total	**39.7**	**14**	**34.2**	**60.2**

The youth (ages 15-29) unemployment rate of 14.0 per cent is considerably higher than adult, making youth unemployment a particularly urgent challenge.

According to the 2002-2003 Labour Force Survey, one in five of the economically active youth between 15 and 24 years was unemployed. In urban areas in particular the youth unemployment rate is alarmingly high. 44.6 per cent of teenagers (14–19) and 33.6 per cent of young adults (20–24) in urban areas were classified as out of work and available for employment at that time. Statistical analysis suggests that young men, educated youth in urban areas, uneducated youth in rural areas and migrants were at greater risk than other youth of being unemployed.[17]

The long term duration of unemployment for youth is also a disturbing trend. While short-term unemployment is common for new entrants seeking a niche in the labour market, long-term unemployment can have negative consequences throughout the working life of the unemployed youth. Data from the school-to-work transition survey in 2006 show that 48.6 per cent of unemployed youth were unemployed for more than one year. In the case of long-term unemployment, the percentages of unemployed were higher for rural areas (60.5 per cent) than for urban areas (39.3 per cent) and for young women (51.6 per cent) than for young men (46.3 per cent). Apparently, youth in towns and cities are more likely to be unemployed but there are opportunities for them to find jobs. On the other hand, youth in the countryside are less likely to be unemployed but when they do find themselves without work they have more trouble finding employment. The fact that women are more likely to remain unemployed for more than a year may reflect, in part, problems in employment conditions for women who have children; the lack of an employment guarantee after taking maternity leave, and the lack of day-care service for young children.[18] Finally, it is noteworthy that among unemployed young people with a vocational technical education, 72.7 per cent had been unemployed for more than one year. Of them, 31.8 per cent had been unemployed for more than two years.

While some youth will seek to obtain paid jobs with vocational skills, others will set up their own businesses.

[14] *NSO. Mongolia Statistical Yearbook 2006. p.76*

[15] *NSO. Employment and Population Annual Report 2006.*

[16] *Note that the Government of Mongolia's data on youth employment cover all people between ages 15 – 29, whereas the UN definition, applied in the SWTS of youth employment, is for people aged 15-24.*

[17] *Francesco Pastore. June 2007 ILO Working Paper, Draft.*

[18] *ibid*

Young people benefit from early exposure to business ideas before entering the labour market such as through training packages developed for use by students in secondary schools, training institutions and universities. Steps can be taken to ensure that youth are able to participate in business incubators that link enterprise training with follow-up support such as business development services. Business leaders may wish to get involved in mentoring programmes to support young entrepreneurs. There are international networks that replicate good practices in mentoring such as the Prince's Trust.[19] Large companies might also provide support to business incubators already operating in Mongolia.

Recommendation 5

Promoting decent and productive work for young people: Recommendations of the ILO school-to- work transition survey

- Policy measures should also be introduced to increase the employment prospects of young people and the findings of the STWS indicate a number *of groups to be targeted.*
- Target *teenagers in urban areas* as one key group to receive training and supply-side measures should introduce entrepreneurship programmes targeting *the least educated* group involved in *self-employment in urban areas,*
- *Target young women* in the labour market, who face considerable disadvantages, despite their higher educational attainment. Introduce and enforce measures to assure equal pay for equal characteristics.
- Strengthen the legal framework and its application mechanisms and make provisions to ease women's access to legal assistance when reporting discriminatory practices of employers.
- Develop educational, training or employment opportunities – such as public works schemes –to those out of the labour market for long periods, especially rural youth

[19] *See home page at http://www.princes-trust.org.uk/*

5.2 Gender disparities in employment

Women play a central role in the Mongolian economy. According to the most recent National Statistical Office data, in 2006 women made up 51.4 per cent of the economically active population and 51.3 per cent of the employed work force.[20] While the distribution of employment by industrial classification is broadly similar for women and men with many working in agriculture and trade, there are some sectors in which either women or men have a dominant share. According to the labour force survey in 2002–2003, women held most jobs in health and social work, education and hotels and restaurants while men were more likely than women to work in mining, construction, transport and public administration. 2006 data from the NSO show a slightly different percentage share of female workers across the same distribution of sectors.

Table 12 **Classification of currently employed by status in employment and sex, Mongolia, 2002–2003**

Status in employment	Distribution of employment		Percentage female
	Male	Female	
Paid employee	37.1	41.8	51.0
Employer	0.7	0.4	34.5
Member of cooperative	0.3	0.2	38.0
Own-account worker	43.4	25.7	35.3
Unpaid family worker	18.4	31.7	61.4
Other	0.1	0.2	64.8
Total	100.0	100.0	48.0
Number	448900	413600	862500

Source: NSO and ADB, *Main report of the labour force survey 2002–2003, Survey report of all four survey rounds conducted during October 2002–September 2003*, Ulaanbaatar, 2004, p. 116.

Data for status in employment from the labour force survey in Table 12 show that women were much more likely to be unpaid family workers than men. Almost two-thirds of own-account workers were men.

Given the distribution of employment by sector and occupation it is not surprising that

[20] *NSO. Mongolian Statistical Yearbook 2006, Ulaanbaatar.*

there is a wage gap in Mongolia. Women are under-represented in sectors with higher pay. Across sectors women are less likely to hold managerial positions in spite of higher levels of educational attainment. To cite one telling example; the education sector work force was 68 per cent female in 2006. Female teaching staff represent 94 per cent of the total in primary schools, 71 per cent in middle and 68 per cent at senior levels. Women account for 60 per cent of the teachers at vocational and technical schools and 52 per cent in colleges and universities. Yet the majority of school principals are male.[21]

Statistical analysis by the ILO of the school-to-work transition survey (SWTS) conducted by the National Statistical Office examined gender wage differentials. Average female wages are not lower than male wages. However, this obscures what appears to be discriminating behaviour against women since they possess characteristics that would otherwise lead to higher productivity than men. By decomposing the gender wage differential the SWTS analysis concludes that if women and men were equally paid, the wages of women should be 11.7 per cent higher. After controlling for the different characteristics of women and men, the wages of women should be on average 22 per cent higher than men.

A National Statistical Office survey on employment conducted in 2000-2002 found that while 48 per cent of the employees in their survey were women, only 35 per cent of managerial positions were held by women. In addition, this survey found that men in managerial positions received salaries that were nearly double those of women in similar posts.[22]

Despite gender stereotypes and wage gaps, there does not appear to be a perception that the job market is characterised by gender discrimination according to a UNIFEM study conducted in 2002[23]. However, another study of young people indicated that one in ten had encountered discrimination in recruitment on the basis of sex. Other forms of discrimination appear to be based on age and appearance.[24]

Box 5

ADB and WB country gender assessment of employment

Distortions in the labour market are leading to inefficiencies in investments in education and to the loss of potential contributions from women to economic growth. Measures that can be taken to address gender gaps include (i) challenging gender stereotypes in occupations by targeting employment and skill training for women in non-traditional sectors with potential for growth; (ii) enforcement of antidiscrimination legislation; (iii) building awareness of how to address harassment of women in the workplace; and (iv) increasing skills in analyzing and monitoring gender gaps in government economic policies and programming.

Source: ADB and WB. Country gender assessment Mongolia, Manila, 2005

[21] *UNIFEM and UNDP. A gender lens on the rural map of Mongolia: Data for policy, Ulaanbaatar, 2002. cited in ADB and WB. Country gender assessment Mongolia, Manila, 2005, p. 37.*

[22] *NSO. "Workforce and Salary" cited in the ADB and WB Country Gender Assessment Mongolia, Manila 2005, p. 20.*

[23] *"Women in Mongolia: Mapping Progress Under the Transition", UNIFEM, New York, 2002*

[24] *ADB and WB. op cit. p. 22.*

Box 6

Gender-related constraints in the expansion of micro-enterprises

The movement of micro-enterprises into the formal sector as SMEs will be an important facet of economic growth, but the possibility of women benefiting from opportunities as entrepreneurs is limited. According to the Employers' Association Survey in 2002 of 482 SMEs (employing between 1 and 21 people), only one third of entrepreneurs are female. The actual rate of participation of women in such enterprises was 38 per cent. There is a higher proportion of women in smaller companies (one to five persons), but the proportion shrinks as company size increases as confirmed in the latest NSO Labour Force Survey. More women could graduate from the informal sector and lead SMEs if they could get access to capital, skills, and social support.

There are also very few women's business associations that provide quality services for female entrepreneurs, and those that do exist are in the capital and have political affiliations that discourage many women from joining. Experience in other countries and to a limited extent in Mongolia has demonstrated that women prefer community and business groups that cater specifically to their needs as shared social concerns are more likely to be addressed and social support networks are more likely to improve. Mixed groups do not address such issues as the double work burden or property for collateral when household assets are held in the name of a spouse."

Source: NSO. 2004 Labour Force Survey; 2002 Employment Assessment Survey.

The Labour Law of Mongolia has explicit provisions to protect against discrimination based on age or sex. An apparent exception is the provision of the Labour Law setting the retirement age of women at 55 versus 60 for men. Under the Pension Law as amended in 1990 women with four or more children can retire early with a pension to provide "social care." While this was supposed to be done with agreement of the employee, the provision made women vulnerable to being "retired" without their consent. As pensions are often insufficient to make ends meet, retired women often seek work elsewhere.

Women frequently face difficult conditions in informal economy employment. The educational level of females is higher than that of males in Mongolia, with large numbers of women overqualified for jobs in the informal economy. Measures for the share of women in informal activities vary according to the definition, coverage and source: 69 per cent according to a USAID study in 1999, 54 per cent in a UNDP report in 2004 and 45 per cent in the report of the labour force survey 2002–2003.[25] Although women are key actors in the informal economy they face disadvantages and obstacles such as inadequate credit and family obligations, imposing limitations on the types of activities that women can select to obtain employment and income. Women were placed at a disadvantage during the transition from state ownership to private property when assets formerly owned by the State, including livestock and housing, were registered in the names of household heads who were predominantly men. This left women without collateral for loans or credit unless they obtained permission from the man who headed the household, hampering their ability to start-up and expand businesses business and making it more likely that women will operate in the informal economy rather than the formal sector.[26] Since lack of capital limits the choice of business, women play a dominant role in retail trade both as street vendors and in personal services.

[25] *ADB and WB. op. cit., p. 26.*

[26] *UN. UNDAF for Mongolia 2002-2006, Draft for discussion, Ulaanbaatar, March 2001, p. 14 cited in Elizabeth Morris: The informal sector in Mongolia: Profiles, needs and strategies, ILO, Bangkok, 2001, p. 73.*

Women carry a double burden with responsibilities at work and at home. The labour force survey conducted during 2002−2003 asked all respondents about non-economic activities and unpaid work. The survey showed that 92 per cent of the population aged 15 years and older participates in activities such as cooking, cleaning, washing and caring for children and elders. Just over half of them are women, spending, on average, 25 hours a week on these activities. In rural areas, women devote twice as many hours to non-economic activities as men – 37 hours compared to 19 hours. The number of hours on these activities was longer in winter (30 hours) than in other seasons – spring (25 hours), summer (22 hours) and autumn (22 hours).[27]

Table 13 **Number of children in pre-school, Mongolia , 1990, 1995, 2000, 2006-2007**

Number of children	1990	1995	2000	2006-2007
Creches	33100	8600	1900	4400.0
Kindregartens, in thousands	92200	64100	79300	94700.0

Source: NSO, Mongolian Statistical Yearbook, 1999, 2001 and 2006, Ulaanbaatar, Mongolia

Table 13 shows that in recent years the Government has restored the number of children attending kindergarten to a higher level than in the socialist era, an impressive achievement. At the same time, however, the number of very young children being cared for in creches is still very low, posing a direct obstacle to labour force participation for many mothers.

Recommendation 6

Reduce gender inequalities in the labour market

- Mainstream gender into all aspects of planning and implementation of programmes and policies that affect the labour market and employment issues
- Establish requirements that data are disaggregated by sex and that planning and evaluation include gender analyses to identify gaps and inequalities
- At the planning and implementation stages of programmes, policies and projects take strong and specific measures to promote equality between men and women at work, including the promotion of women to decision-making roles and senior management.
- Take measures to allow women access to new jobs emerging in growth sectors with higher pay such as finance, mining and public administration
- Enlist the participation and support of women's NGOs in programmes for job creation through public works and community services in both the city and countryside.
- Put into place measures to free women from their double burden of economic activities and household tasks through shared responsibilities, child care facilities and other means.

[27] *Elizabeth Morris and Ole Bruun. 2005. Promoting employment opportunities in rural Mongolia: Past experience and ILO approaches, ILO, Bangkok, p. 175.*

5.3 Child labour – sacrificing the future for short-term benefits

Child labour is a continuing concern in Mongolia. The central issue is not occasional work done by children as part of the socialization process and as a means of transmitting acquired skills from parents to children through a few hours tending household livestock, doing farm work or assisting family businesses. Rather, the concern is whether children are denied a childhood and a future by dropping out of school or working long hours for low wages under conditions that damage physical health and mental development.

The Government's National Programme for the Development and Protection of Children (2002−2010), which provides the overall framework of actions to protect the rights and development of children, aims to reduce the achieve by the end of this decade a 95 per cent reduction in the occurrence of the worst forms of child labour – a term which by international convention includes trafficking, forced or bonded labour, sexual exploitation, use of a child in an illegal activity, and hazardous activities Another important step to reduce pressures on children to engage in labor was the Child Benefit Programme instituted by the Government in 2005, which gives all children up to 18 years a monthly benefit, subject to certain conditions. This conditional programme was introduced as a new dimension in social inclusion and protection policy. Mongolia has also ratified ILO Conventions No.138, concerning Minimum Age, and No.182, concerning the Worst Forms of Child Labour. The provisions in the Mongolian Labour Law that set different age standards for admission to work on the basis on the nature of work, and pose limitations on working hours are generally in line with these ILO Conventions.

National employers' and workers' organizations have been active players in national advocacy against child labour. The Confederation of Mongolian Trade Unions and the Mongolian Employers' Federation have adopted strategies to combat the worst forms of child labour in Mongolia and are working on a number of fronts, including sensitization of members, capacity building in strategic areas and concrete actions against these abuses of children.

Despite this commitment from the Government and from Mongolian society to eliminate child labour, there is still an unacceptable level of involvement of children in economic activities, to the detriment of their education, health and long-term ability to lead productive lives. Public attention has focused on children working in small-scale mining, as child jockeys, livestock herding and the informal economy. Street children are another concern. Sexual exploitation and human trafficking appear to be on the increase. The school-to-work transition survey points to an important issue in Mongolia, deserving special attention for its long-term implications; the number of young people not attending school, clearly a problem of child labour and poverty.

Recommendation 7

Eliminating child labour

Some key steps that should be taken to make further progress toward the elimination of child labour are:

- Build on the "Education for All" agenda by adopting national programmes to increase access to and the quality of education. Although progress has been made, providing quality and accessible education to all children, by addressing the differences between urban and rural areas and between boys and girls remains a critical challenge. It is necessary to build schools in rural areas and to drastically reduce the costs of education for drop-out students, including school fees, in-kind payments to schools, transportation in and housing costs.
- Establish a clear legal regulatory framework for the informal mining sector, to allow enforcement of child labour legislation. In June 2005, the Government, CMTU and MONEF signed a tripartite Call for Collabourative Action to eliminate child labour in mining by 2015 and have developed an action plan to achieve this objective.
- Strengthen capacities in gathering data, planning, implementing and monitoring the government's programmes to eliminate child labour. In addition, there is a need to continue mainstreaming the issue of child labour into overall national and sectoral policy agendas, by broadening the network and interest groups, further developing and harmonizing the policies and legal framework, improving the methods of awareness raising, reaching and mobilizing Mongolia's widely dispersed population and replicating effective direct actions for eliminating and preventing the worst forms of child labour
- Focused assessments of progress in implementing existing legislation, including the identification of problems and aggressive moves to strengthen implementation capacity are needed.
- In all efforts, maintain the approach of promoting sustained actions at the local level, backed up with effective policies at the national level

5.4 Opening opportunities for persons with disabilities in the labour market

According to the NSO there were 50.8 persons with disabilities per 1,000 people of working age in 2006, a total of 82,3 thousand working age persons with disabilities. Only 13 per cent of these people were employed[28], although the Ministry of Social Welfare and Labour (MSWL) estimates that roughly 80 per cent of them are capable of holding a job.[29] Only an estimated 20 per cent of persons with disabilities in need of vocational training have access to such programmes, with only 303 individuals participating in training through the Labour and Social Welfare Offices in aimags and districts in 2006. The National Rehabilitation Centre involves 120–200 each year in segregated training for nine vocations. Of the 310,3 thousand persons receiving a pension from the Social Insurance Fund in 2006, 51 thousand were persons with disabilities.[30]

Limited social and economic infrastructure in rural areas poses a particularly serious challenge in providing services to people with disability who are geographically dispersed. Accessibility remains a major barrier not just in terms of physical access to buildings, workplaces and transport, but also with respect to use of employment services, vocational training and communication technology. Furthermore, people with disabilities often do not enjoy equal access to basic services such as education, transportation, health care and social protection, which in turn has long-term ramifications for training and work. As yet there is no legal obligation on the part of educational institutions, training providers and employers to provide reasonable accommodation for persons with disabilities. Discriminatory attitudes towards people with disabilities continue to be a significant barrier to mainstreaming and integration.

While the government provides vocational rehabilitation services through the

[28] *NSO. 2006. Population and Employment, Ulaanbaatar.*

[29] *MOSWL. Updated 2007. The status of training and employment policies and practices for people with disabilities in Mongolia, Draft, ILO.*

[30] *NSO. Mongolia Statistical Yearbook 2006, Ulaanbaatar, p. 341.*

National Rehabilitation Centre, there is limited capacity for supporting access to mainstreamed services for training and employment. The centre is not able to effectively serve people with disabilities in rural areas. According to the MSWL there are now over 40 non-governmental organizations for people with disabilities. While most NGOs promoting the interests of persons with disabilities work to improve employment opportunities there is a need for greater coordination in promoting both self-employment and wage employment, including more focus on mainstreaming in the formal sector and creating opportunities for income generation in the informal economy. Most of these NGOs are located in Ulaanbaatar, with services in rural areas generally limited to supplying equipment rather than promoting sustainable employment opportunities.

The main legal mechanism to promote formal employment of persons with disabilities is a quota system under the Labour Law, which applies to companies with 50 or more employees. Levies are paid into a special fund to be used exclusively for training and employment of persons with disabilities. The Mongolian Social Security Law for People with Disabilities contains provisions for mainstreaming vocational training and supporting enterprises and organizations employing persons with disabilities. The Law on Employment Promotion enacted in 2001 includes measures to assist jobseekers with disabilities through various services such as job placement, vocational training, entrepreneurship training, business incubators, public works and unemployment benefits. However, methods for monitoring and evaluating the participation of persons with disabilities in these programmes are not yet sufficiently systematized.

Responding to the challenge of dispersed populations in rural areas, the government is planning to establish a Community Development Division within the National Rehabilitation Centre (NRC) as part of a overall redevelopment of the Centre.[31]

The National Programme on Promotion of Persons with Disabilities adopted in 2006 covers employment and training. It is in line with the concept of the 2000 Biwako Declaration to "involve the State, civil society and people with disabilities in building a society where opportunities of a dignified life and development for people with disabilities are increased and their rights are fully respected". An Action Plan for Promoting Employment of People with Disabilities and Providing them with Equality to Work 2007–2008 includes several components: (i) developing and implementing the legal environment on promoting employment of people with disabilities; (ii) improving equal opportunities for people with disabilities; (iii) enhancing skills and capacity of people with disabilities and their representative organizations; and (iv) expanding information and publicity.

Recommendation 8

Opening opportunities for persons with disabilities in the labour market

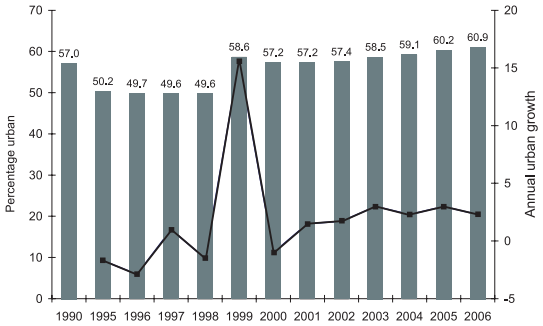
- Mainstream people with disabilities into programmes for employment and employability and to improve access to information and services
- Support the development of associations of people with disabilities and the NGOs that serve them, so that they can participate in decisions that affect their ability to find decent work
- Focus particular attention on employment for people with disabilities in rural areas, where access is still very constrained work collaboratively with employers associations and trade unions to strengthen and advance services, especially efforts to mainstream disabled persons in existing programmes and activities take all necessary measures to ensure equal access to skills training for people with disabilities

[31] *As set out in Annex 1 to Decree #81 of 4 August 2006 by the MSWL*

5.5 *Expanding employment opportunities for internal migrants and protecting migrant workers seeking employment abroad*

Migration from rural to urban areas has emerged as a major survival strategy for Mongolians confronted with falling incomes. As of 2006, some 60.8 per cent of Mongolia's population was classified as urban, most of them living in and around the capital city of Ulaanbaatar and a few other large cities such as Erdenet and Darkhan[32].

Figure1 **Share of population in urban areas and annual urban growth, Mongolia, 1990–2006**



Source: NSO. Mongolia Statistical Yearbooks, 1998-2007, Ulaanbaatar.

This explosion of urban population not only threatens the standard of living of all by stretching the already cash-strapped urban services beyond limit, it also fails to meet the migrants' expectations of finding decent jobs, one principal motivation for migration. Thus a recent survey of the migrant population in the ger districts of Ulaanbaatar has found that only about 32 per cent of the sample population lived on stable income such as salary or pension. Most of these people consisted of retired senior citizens living on pension income. A staggeringly high 53 per cent of the respondents reported themselves to the questioners as "unemployed" and 80 per cent of households reported to have one or more unemployed adult family member.[33] The report points out that these unemployed people are not necessarily entirely without jobs, but they nonetheless consider themselves unemployed for not having a full-time job or a stable income such as a regular salary. In other words, they may have some occupation and may not meet the formal definition of "unemployed", but the quantity and/or the quality of employment are so far from satisfactory in terms of compensation, work conditions, security and empowerment that they consider themselves unemployed. This is true for more than half of the migrant population.

The employment problem is, therefore, one of the most serious predicaments faced by the migrant population. A study of internal migration carried out by the National University of Mongolia recommended a number of steps to ease the problem – e.g., improving the functioning of labour market, developing small and medium enterprises, encouraging self-employment, opening centres for counselling and information, encouraging private educational institutions, and others.[34] Many of the measures already identified above aimed at rolling back informality will be directly beneficial to migrants.

However one central labour market issue specific to the migrant population is the registration system. Labour mobility was deliberately restricted in socialist times, as rural people were required to obtain written permission from local authorities or individual workplaces in order to move into urban areas. Without the necessary paperwork, migrants were not considered official residents of an urban area and were deprived of access to all social services as well as to formal employment opportunities. The constitution of 1992 sought to change all that, allowing people the right to choose wherever they wanted to live and work. However, the remnants of the old system still exist. For instance, a recent survey of migrants in the ger districts of Ulaanbaatar has noted that the "inability to obtain transfer papers is an additional obstacle to getting employment for the poor migrants from rural areas".[35]

[32] *NSO. Mongolia Statistical Yearbook 2006, Ulaanbaatar.*

[33] *NSO. CHRD. 2005. "Participatory Poverty Assessment, Ulaanbaatar ger area"*

[34] *PTRC. 2001. "A Micro Study of Internal Migration in Mongolia".*

[35] *NSO. CHRD. 2005. "Participatory Poverty Assessment, Ulaanbaatar ger area"*

Some migrants also face discrimination because they are poor and unable to afford appropriate dress for job interviews. Many end up in the informal economy selling goods such as flour and firewood in local markets. Migrants also find manual work such as carrying goods for others. Some work as cleaners in buildings and on streets.[36]

Data from the school-to-work transition survey in 2006 tell a bit more about migration of the population aged 15–29 years. The proportion of youth who were migrants was 17.1 per cent. Many were migrants located in Ulaanbaatar (21.2 per cent) with a similar share going to aimag centres. The proportion moving to soum centres was 16 per cent, with those going to rural areas accounting for 8 per cent. While rural-urban migration has proven beneficial in the sense that workers and families move to places where opportunities for employment and earnings are better, the impact on rural sending areas can be negative, as there is a tendency for better educated rural youth to migrate in higher numbers than others. Data from the survey show that the share of in-migrants increases with education level: no school (12.6 per cent), primary school (9.6 per cent), bachelor's degree (26.7 per cent) and master's degree (25.0 per cent). This means that the migrant population from rural areas is relatively educated, and raises the danger of an internal 'brain drain'.[37]

As is usually the case, the most common reason (64 per cent) given for migration was to move with the family. This response was even higher for women (68.9 per cent). The household head generally moves in search of gainful employment accompanied by family members. The next most important reason for migration given by young respondents in the school-to-work transition survey was for education and training, accounting for 17.2 per cent of male migrants and 14.0 per cent of female migrants. This was followed by a job offer: 14.0 per cent for males and 8.9 per cent for females.

The remainder migrated in search of a job, without any pre-arranged offer.

The growing numbers of workers seeking employment abroad pose additional challenges to the government, which must continue efforts to manage labour migration and protect migrant workers. This includes such support as the regulating recruitment agencies, assisting with employment contracts, entering into bilateral agreements with foreign countries, offering pre-departure training, improving remittance channels, compiling better statistics, offering assistance through labour attaches and foreign embassies, smoothing the re-entry process and other interventions. The Law on Sending Workers Abroad and Employing Foreign Workers adopted in 2001 and revised in 2007 outlines the conditions under which Mongolian workers may seek employment abroad and employers may hire foreigners in Mongolia. This includes licensing, fees and management of recruitment agencies, coordination with government agencies and non-governmental organizations in Mongolia, agreements between employers abroad and Mongolian workers and between Mongolian employers and foreign workers, employment of foreign experts and so forth.

Recommendation 9

Expanding employment opportunities for migrants

- Eliminate obstacles to registration by internal migrants, to ensure them unimpeded access to labour markets and social services in their new homes
- Eliminate the gaps in public services offered to migrants and those offered to other urban residents
- Strengthen support for and management of employment abroad and protection for migrant workers

[36] *NSO. ADB and WB. 2006. Participatory poverty assessment Mongolia, Ulaanbaatar, p. 37.*

[37] *NSO. ADB and WB. 2006. Participatory poverty assessment Mongolia. Ulaanbaatar, p. 58.*

6. Challenges in Three Key Areas: Informal Employment, Agriculture and the Mining Sector

6.1 Informal employment

The informal economy played an important role over the transition period by absorbing redundant workers, cyclically unemployed, new entrants and additional workers. The growth of informal activities was a result of a number of factors; downsizing and privatization of state-owned enterprises, cutbacks in the civil service, the sharp decline in manufacturing employment, shifts in domestic demand for consumer goods and rural-urban migration. Some enterprising individuals set up businesses with financial resources from family savings, the "suitcase trade" and overseas remittances. Markets and kiosks sprang up in Ulaanbaatar, other cities and soum centres. Many informal workers found employment opportunities in transport businesses driving informal taxis in the capital city and offering transport services between rural areas and urban centres. The absence of an enabling business environment was a concern, with laws and regulations for licenses and permits difficult and costly to maintain. Other issues related to financial services, marketing support, working conditions, workplace safety and social security in the informal economy.

Informal mining began to absorb growing numbers of Mongolian workers. At first many of the miners were unemployed geologists, engineers, cooks, drivers and their families who lost their jobs with the collapse of state-owned mining enterprises. As formal mining picked up in the mid 1990s, some of these workers found employment in mineral exploration companies. Those who continued to seek an income through informal mining were largely farm workers, urban poor and livestock herders.

While measurement of output and employment in the informal economy has produced different estimates since the beginning of the economic transition, the sector has clearly been creating jobs and income for many Mongolians. At the same time there are concerns about both the nature of production and the quality of jobs. For the most part, informal economy workers remain unrecorded, unregistered, unprotected and unorganized.

For example, analysis of job creation and social security enrolment data in the last 6 years shows that the great majority of jobs that are being created in Mongolia today do not offer participation in the state pension, workplace injury and unemployment insurance systems. Even when we exclude herders from these calculations, and look only at the non-agricultural workforce, the results are still quite striking. Between 2000 and 2006, 203 thousand new non-agricultural jobs were created in Mongolia. However enrolment in the pension fund increased by only 46,3 thousand during the same period.[38] From the perspective of the Government's Decent Work agenda the fact that the great bulk of new employees are not able to participate in core social insurance programs is a major problem. This is a clear reflection of the increasingly dualistic structure of the labour market, with a privileged stratum of employees of state agencies, state enterprise, foreign-owned and a small number of elite private companies, coexisting alongside a much larger number of workers who self-employed or work on short-term contracts or other informal sector job arrangements. A recent study by the ILO of small vendors in the cities of Ulaanbaatar, Darkhan and Erdenet found that these people identified lack of social security as their biggest problem, with 88 per cent advising that they are not covered by either social or government health insurance programs. The same study found similar results in broader surveys of informal economy workers, herders and unemployed individuals.[39]

Clearly, despite long-standing efforts by, government, employers and workers to

[38] *Data provided to authors by the State Social Insurance General Agency*

[39] *ILO. 2006 "Poverty, Employment in Cambodia, Mongolia, Thailand", p. 17.*

"roll back informality" there is a great deal of work still to be done. Since the early days of economic transition Mongolia has taken steps to address issues related to the informal economy. Following the National Employment Conference in 2001 the Government organized a National Conference on the Informal Economy in 2002 to draft a medium-term and long-term strategy for Mongolia. The meeting confirmed the seriousness of the Government, employers and workers to address issues arising from the sudden emergence and rapid growth of the informal economy. Programmes and projects targeting the informal economy and micro enterprises have provided support for business training, product development and marketing channels. These have aimed to promote good governance, policy development and public-private partnerships.

Women and men employed in the informal economy have voiced their opinion in decisions affecting their livelihoods and incomes. In recent years, existing NGOs and trade unions have worked actively to support workers employed in the informal economy. New associations and unions were created with hopes of protecting separate groups of informal economy workers such as informal miners, drivers and owners of microbuses and taxis, photographers, street vendors, market sellers and others, since reliance cannot be placed entirely on economic growth or the formal sector to create decent work.[40]

In addition, Mongolia has approved a national policy on informal employment. This policy adopted by Parliament in 2006 outlines an action plan based on the ILO concept of decent work. It is considered a best practice in the region and was recently showcased in a report prepared for the 2007 ILO Asia-Pacific Employment Forum, held in Beijing. The policy defines the informal economy as production units of non-agricultural goods and services that are not prohibited and which are not fully reflected in official registration, statistical information and social protection.

According to the definition, informal employment lacks work organization. The objective of this policy is to "formalize" informal employment by providing government services; creating legal, economic, labour and social protection guarantees to protect people in informal employment from risks; and ensuring economic growth.[41]

To complement these actions, steps should be taken that increase employers' interest and incentives to shift their workforce into the formal sector. At present many employers keep their employees "off the books" because of the heavy social insurance fees that employers must pay. While the proposal to reduce the employers' social insurance fee from 19 per cent of the wage to 14 per cent, currently under review in the Parliament, is a step in the right direction, a larger cut may be worth considering.

This high payroll tax rate has been cited repeatedly by Mongolian businesses as an obstacle to job creation – employers are given a strong incentive to hire fewer workers, or to keep workers off the books, using informal arrangements or short-term contracts. Mongolian Employers Federation surveys of their members have identified the lowering of this rate as a priority request.

Adjustments in contribution rates must not be considered only from the perspective of employment impact. The first goal of social insurance policy must be to guarantee a reliable and adequate benefit to the population; in this case to meet the old age needs of the population. Any adjustment in contribution rates should be based on consideration of the need to maintain resource inflows and cannot be allowed to lead to a decline in projected pension benefits for Mongolian workers. This raises many issues about the nature of the Mongolian social security system, which are beyond the scope of this report. However, briefly, the revenue impact of an adjustment could be offset by increased contributions from the general budget, as a policy choice aimed at making the social insurance fund

[40] *Tajgman, David. Ed: Extending labour protection to the informal economy: Bringing together three country experiences, "Extension of labour legislation to the informal economy in Mongolia," by Damdinjav Narmandakh, ILO Subregional Office for East Asia, (forthcoming), p. 108–109.*

[41] *Government of Mongolia. 2006. The Policy on "Informal Employment".*

a more broad-based program that will contribute to increased formalization of the labour market and better working conditions for the majority of employees who are currently excluded. Furthermore, a significant portion of these payments would represent funds that the government is saving from reduced contributions for its own employees, who make up half of the total enrolled workforce. Additional government payments specifically targeted at maintaining pensions for government employees would also be appropriate. This could be a step toward a second pillar in the national retirement security system.

In consultations with a range of Mongolian employers and representatives of employers' organizations, it was reported regularly that the Mongolian tax law and tax administration continues to be their biggest problem in trying to grow their businesses. The 2006 reform of the Personal Income Tax was well received, but many problems remain. The tax law itself is still flawed by the absence of clauses generally seen as essential to promote business investment; such as a loss carry forward provision. Tax administration is perceived as unpredictable and burdensome. A recent World Bank report found that in 2004, 10.770 of the total of 26.000 registered corporate tax payers were subject to tax inspections, nearly four fifths of them were assessed fines and interest, and that on average the firms spent nine days meeting with tax inspectors, a very high number by regional standards.[42] The unpredictability element was cited repeatedly during our interviews – tax inspectors are perceived to have a high degree of discretion, making evasion and inaccurate record-keeping a widespread and rational response by firms to their sense that even if they follow the law carefully they are likely to be assessed penalties anyway.

Recommendation 10

Rolling back informality– reducing the gap between formal and informal workers in access to government services and protections, and expanding the formal sector

- Continue and expand efforts to "formalize" informal employment by expanding government services to informal workers; creating legal, economic, labour and social protection guarantees to protect people in informal employment from risks.
- Improve access of informal economy operators to credit, training and business incubator services by targeting them in government and donor programs
- Create and support new associations and unions that will protect separate groups of informal economy workers such as informal miners, drivers and owners of microbuses and taxis, photographers, street vendors, market sellers and others
- Reduce employers' social insurance contribution to the appropriate level, while ensuring that the Social Insurance Fund finances are not weakened and future benefits not jeopardized
- Create a more taxpayer-friendly tax administration regime by reducing red tape and streamlining the audit process, in order to promote transparency and growth and employment creation in Mongolian businesses.

[42] *WB. "Mongolia: Promoting Investment and Job Creation", Executive Summary, p. vi.*

6.2 Recent trends in the herding sector show marked changes from the past

The number of herding households and the number of livestock have undergone dramatic changes since the collapse of the collective livestock system in 1991-1992. The 1990s saw a dramatic increase in both the number of herding households and the number of livestock. In terms of productivity and income, however, the trend in that period was one of sharp decline, as the number of herders increased much more rapidly than the number of livestock. Then, following the loss of more than 35 per cent of the national herd during the three dzud of 1999-2001, a rebound in herd size occurred along with a gradual reduction in the number of herders. Table 14 shows trends in the size of the national herd, the number of herders, and the ratio of livestock per herder from 1989 to the present.

Table 14 **Number of livestock in bod, 1989-2006**

	Number of livestock in bod28	Number of herdsmen	Bod/ Herdsmen
1989	8723.00	135.40	64.42
1991	8901.45	245.00	36.33
1995	9865.53	390.50	25.26
1999	11430.07	417.70	27.36
2000	9836.70	421.40	23.34
2001	7875.53	407.00	19.35
2002	7165.43	389.80	18.38
2003	7269.18	377.90	19.23
2004	7707.37	369.70	20.85
2005	8177.94	364.30	22.45
2006	9061.70	364.40	24.87

Source: NSO, Mongolia Statistical Yearbook, 1989-2006

The restocking of the herds since the three years of dzud resulted in a markedly different pattern in distribution of livestock than the pre-dzud growth in the 1990s. Comparing 1999, that represented a peak during the 1990s, with 2006 shows decrease in the numbers of herding households and an increase in the share of families with large herds. The proportion of non-herding households fell from 29.7 per cent in 1999 to 24.2 per cent in 2006. The share of households with fewer than 100 animals was 59.0 per cent in 1999 compared with 63.2 per cent in 2006. And the share of households with more than 200 households increased from 23.3 per cent to 32.5 per cent over the same period. This pattern is consistent with the marked increase in rural inequality that has been reported by the NSO. The Gini coefficient for income distribution in rural Mongolia increased from 0.313 to 0.360 between 2003 and 2006. The corresponding figure for the countryside excluding soum centres increased from 0.309 to 0.346.

Table 15 **Distribution of households by herd size, 1999 and 2006**

Herd size	1999			2006		
	House-holds	Share (%)	Cumula-tive share (%)	House-holds	Share (%)	Cumula-tive share (%)
10 or less	28,669	10.62	10.62	21,710	9.63	9.63
11-30	35,970	13.32	23.94	27,791	12.33	21.96
31-50	31,874	11.81	35.75	24,175	10.73	32.69
51-100	61,347	22.73	58.48	43,687	19.38	52.08
101-200	67,840	25.13	83.61	52,445	23.27	75.35
201-500	37,635	13.94	97.55	44,765	19.86	95.21
501-999	5,438	2.01	99.56	8,458	3.75	98.96
999-1499	1,061	0.39	99.96	2,024	0.90	99.86
1599-2000	75	0.03	99.98	182	0.08	99.94
More than 2000	41	0.02	100.00	129	0.06	100.00
Total	269,950	100.00		225,366	100.00	
Of which herding households	189,900			170,755		

Source: NSO. Mongolia Statistical Yearbook, 1989-2002 and 2006.

We see that a bifurcation is occurring within the herder population, mirroring the trends in Mongolian society as a whole. Well off herders are better off than at any time in the past, even as the lives of a substantial number of herder households are not improving. Because Mongolia's ecology will not support a massive increase in the total number of livestock, there is an effective natural limit to how much of an improvement in living standards for the population as a whole can come from increased herd size. If every herder household in Mongolia had 200 head of livestock the ecological strains would almost certainly lead to serious difficulties, particularly when droughts or heavy snows are encountered. Steadily worsening desertification is making these ecological limits on total herd size tighter and tighter by the year. While steps to improve the productivity and income of the herding activities of poor households are needed, the key to large and sustainable improvements in the welfare of most poor herders must be ability to earn income from non-herding activities as well.

Box 7

International Experience in Employment Generation; India's National Rural Employment Guarantee Act

The National Rural Employment Guarantee Act was enacted launched by the Indian Parliament in 2005 and goes beyond poverty alleviation to recognize employment as a legal right. It provides a minimum guaranteed wage employment of one hundred days in every fiscal year to rural households with unemployed adult members prepared to do unskilled manual work. In addition to the guaranteed employment, it includes provisions for child care for women who participate, creation of durable assets and other issues. To date it has been implemented in 200 districts in seven states.

Source: P. Chakraborty, "Implementation of the National Rural Employment Guarantee Act in India: Spatial Dimensions and Fiscal Implications", The Levy Economics Institute, Bard College, Annandale-on-Hudson, NY, 2007

For this reason in this report we focus on other options for improving the employment and income of poor herding households – specifically through the reinvigoration of the soum centre economy. Soum centres are the only location from which an employment-based approach to alleviating rural poverty can be implemented. For one thing, studies have found that herders with small herd sizes are increasingly cut off from the broader market economy and are less likely to take advantage of opportunities to migrate and to receive skills training. Moving services as close as possible to them will be essential. There is also a strong case for active government policy to reinvigorate the soum centre economy and expand its role as a centre of commercial and small business activity, as a means of facilitating further growth and employment generation in rural areas.

The current rate of job creation in rural Mongolia is far too slow to offer hope of increased living standards to the 37.0 per cent of the rural population who are living below the poverty line. Many of those poor are herders, whose small herd size makes it essential that at least some family members find alternative sources of income. By the World Bank's analysis, 67 per cent of Mongolia's herding families were either chronically poor or vulnerable to be pushed into poverty by a shock.[43] While it is desirable to find ways to improve their earnings and lessen their vulnerability as herders – including an excellent proposal for livestock insurance presented in that World Bank report[44]– non-herding sources of employment and income are also urgently required. Many other rural poor are living in soum centres, where the 2002-2003 LSMS found a poverty rate of 44.6 per cent, higher than for any other analytical group, including herders, aimag centre and Ulaanbaatar residents.

[43] *WB. 2006. "Mongolia Poverty Assessment".*
[44] *Ibid.*

Recommendation 11

Rural employment generation – reinvigorating the soum centre economy

- Expansion of employment services, including training, counselling, placement, information and others, in soum centres. A larger share of the Employment Promotion Fund could be earmarked for use at the soum level, and programs launched to fully utilize the funds.
- Piloting of new small business development services in soum centres, including both agricultural extension services supporting the more rapid growth of Mongolia's new "herder as entrepreneur" and more general businesses that can serve the rural economy. Such an effort would be best taken as a participatory, grass roots process such as local economic development. Small businesses would be developed according to local conditions, using local raw materials and servicing local markets. Larger soum centres – those with populations greater than 1000 – would in most cases be particularly promising sites for such initiatives.
- Infrastructure development at local level. Expand investment in water supply, sanitation and roads are all clear candidates for investment at the soum level, for their immediate employment opportunities and for their longer term impact on economic development.
- Launch a broader and more determined decentralization program, giving soum citizens' hurals and governors greater authority to chart and implement local development initiatives, including the authority to command more fiscal resources.

6.3 The mining sector challenge – how to generate pro-poor growth

Despite the leading role played by mining as the engine of growth in recent years, concerns have been raised about its capacity for generation of productive employment. Between 1994 and 2006 the number of workers in the mining sector increased from 14.6 thousand to 41.9 thousand, a far greater percentage increase than in any other sector, but as of 2006 still only 4.1 per cent of the total work force. Virtually all of this increase has occurred since 2000, during which time the average annual increase has been 20.9 per cent. Most mining production is taking place in highly capital-intensive formal sector firms, which produced nearly 30 per cent of Mongolian GDP in 2006 with that small share of the work force. Productivity and wages are therefore considerably higher for that segment of the labour force, with labour productivity in 2006 seven times higher than the national average, and average salaries 20 per cent higher than the average. But the broader impact on employment and poverty of this segment of the sector has been limited.

Clearly, mining opens opportunities for both formal and informal employment. Along with the increase of formal employment in the mining sector, informal employment has been growing intensively in the last years. Informal employment in the mining sector is a new phenomenon which emerged in Mongolia after transition to the market economy. In the early years of transition informal coal mining started in such mines as Nalaikh, formerly large state-owned operations which had stopped its activities, but since 1998 informal gold mining has become widespread. Informal mining of other minerals has also been spreading rapidly as well. At present, informal miners mine not only coal, but gold and fluorspar. Some statistical data suggest that informal employment in the mining sector of Mongolia equals formal employment in that sector or even exceeds it.

The importance of the mining sector in an employment-based strategy for poverty reduction, beyond the job openings that it generates directly, is three-fold. First, it is the principal source of resources – in terms of both budgetary revenue and foreign exchange earnings – that can be invested to support the creation of further productive employment. For example, these resources can be invested in agriculture and other labour-intensive industries, including those based on livestock products, as well as in government programs such as infrastructure, education and training. Second, the forward and backward linkages between mining and other industries, such as power, metal processing and a broad range of service industries, can also generate a considerable volume of additional good employment, including in the manufacturing sector (where significant excess capacity exists.). Third, the aggregate demand generated by the export of minerals can stimulate output and employment more broadly. The mining sector can thus act as the engine that drives growth and employment in the rest of the economy through its roles of providing investible resources and stimulating demand on the other. A crucial policy concern here is how to develop an integrated and balanced industrial strategy that will ensure that resources and demand generated by mining do actually promote the sectors where there is greater scope for labour absorption.

Some important steps have already been taken, for example, in draft agreements with foreign mining companies that require the hiring of Mongolian workers. One of reasons why the mining sector has not been able to contribute significantly to unemployment and poverty reduction is that of 48 thousand persons formally employed in this sector 13 per cent are foreign workers, and without attention to this issue it is possible that this trend worsen. Another positive step has been incentives for investors who build processing and infrastructure facilities in Mongolia, to ensure that greater value-added activities are undertaken within the country, generating a much larger number of new employment opportunities than would be the case if unprocessed mineral output is exported, and electricity imported. However, much needs to be done to take advantage of this dynamic sector in generating broad-based growth.

Recommendation 12

Expanding and broadening mining sector-based employment creation

- Governance and public management: The proper use of the large flow of resources generated by the mining sector depends greatly on establishing effective governance, especially transparency in financial management, and future-oriented allocation of the resources are essential. Most importantly, income from mining should be invested in human development and in infrastructure development. Distribution of mineral exploitation licenses and permits should be transparent and resolved on the basis of fair competition. Mining sector tax policy should be designed to achieve the broadest social benefits.
- Training and skills development. (See broader discussion of skills development issues above.) For the mining sector to generate more workplaces for poor, unemployed Mongolians, training of the professional workforce should be made a high priority. While some training will be provided on the job by employers, there is a pressing need for ambitious, focused mining sector skill training programs, to avert a major skills mismatch problem as new mines open and workers are required. If this demand cannot be met by the educational system of Mongolia, these workplaces will be filled by foreign workers. At present, of total foreign nationals working in Mongolia nearly 50% are mining experts.

- Legal coordination to formalize informal mining. Informal mining has become an important source of employment and income for tens of thousands of Mongolian households. However this work often takes place under hazardous conditions, and an unacceptably high degree of child labour is involved in it. There is therefore a need to formalize informal mining, in other words, to legally coordinate informal mining along with its support, to resolve issues of taxation, permission, social welfare, healthcare of informal miners and to give individuals an opportunity to mine gold and other natural resources in an environmentally-friendly healthy way. This would also allow effective steps to ensure that current trends toward use of child labour in this sector are ended, as they risk producing a substantial number of uneducated and unskilled Mongolians.
- Linkages with other sectors: in order to retain a greater share of income and wealth generated by the mining sector to support growth in other sectors other Mongolian companies need to produce machinery, equipment, and its components needed in mining operations. In this case the Mongolian industry will develop as a supplier of the mining sector and industrialization will intensify.

7. *Recapping Key Recommendations*

An employment-based poverty reduction agenda in Mongolia today should be built around the following recommendations, which have been presented in more detail in the text of this report:

Recommendation 1 **Expand investment in human development**	• Reduce the urban-rural gap in core public services such as education, health, sanitation and water • Reduce the public service gap within urban areas between migrants and other residents • Increase the targeting of education and health care expenditures so that they focus on poor population that are being left behind, especially rural areas and ger districts • Reduce or eliminate fees that are charged to poor people for core public services, such as health care and education • Continue to increase government spending in social sectors
Recommendation 2 **Strengthening data collection for more effective employment policy-making**	• Establish employment data standards, definitions and practices that are consistent with international standards, including in measurement of unemployment, informal employment and youth employment • Conduct labor force assessments following international standards quarterly or annually, to give policy-makers and other stakeholders up-to-date information on employment trends • Link labor force surveys to household income and expenditure surveys and living standards measurement surveys, to produce more information about the working poor • Gather and report full gender-disaggregated employment data • Establish a programme of regular and ad hoc establishment-based surveys and censuses
Recommendation 3 **Bridging the skills mismatch between supply and demand in the labour market**	• Strengthen links between education and labour markets, through greater participation by employers in reviewing training courses, setting occupational standards, offering on-the-job training and developing bridge programmes between school and work such as through apprenticeships and internships. • Launch a multi-stakeholder effort to reform vocational education and training to overcome the current mismatch between the skills provided by training institutions and the qualifications sought by competitive enterprises. Involve employers, trade unions, government and schools in this effort. • Launch a campaign to change attitudes toward vocational education and training, promoting the value of practical-oriented, hands-on approaches to developing skills required in the labour market. • Create a national council on vocational training, skills standards and certification, involving key stakeholders who will work together to support the development of a legal framework, financing mechanisms, methodological centres, vocational standards, pedagogical issues, certification procedures, teacher training, school management and training facilities among others. • Under the oversight of this council, establish professional qualification standards that will be of use to Mongolian workers seeking employment at home and abroad.

Recommendation 4 **Reducing a serious obstacle to employment promotion in Mongolia today: alcoholism**	• Launch a national campaign to reduce alcoholism, educating people about its negative social and econmic impact on the Mongolian people, with an emphasis on alcoholism as a workplace issue • Take steps to reduce access to alcohol, by restricting the number and operations of businesses selling alcoholic beverages • Launch a workplace-based educational program about the harmful effects of alcoholism, involving employers, trade unions and the Government
Recommendation 5 **Promoting decent and productive work for young people:** **Recommendations of the ILO school-to-work transition survey**	• Policy measures should also be introduced to increase the employment prospects of young people and the findings of the STWS indicate a number of *groups to be targeted*. • Target *teenagers in urban areas* as one key group to receive training and supply-side measures should introduce entrepreneurship programmes targeting *the least educated* group involved in self-employment in urban areas • Target *young women* in the labour market, who face considerable disadvantages, despite their higher educational attainment. Introduce and enforce measures to assure equal pay for equal characteristics. • Strengthen the legal framework and its application mechanisms and make provisions to ease women's access to legal assistance when reporting discriminatory practices of employers. • Develop educational, training or employment opportunities – such as public works schemes –to those out of the labour market for long periods, especially rural youth.
Recommendation 6 **Reduce gender inequalities in the labour market**	• Mainstream gender into all aspects of planning and implementation of programmes and policies that affect the labour market and employment issues • Establish requirements that data are disaggregated by sex and that planning and evaluation include gender analyses to identify gaps and inequalities • At the planning and implementation stages of programmes, policies and projects take strong and specific measures to promote equality between men and women at work, including the promotion of women to decision-making roles and senior management. • Take measures to allow women access to new jobs emerging in growth sectors with higher pay such as finance, mining and public administration • Enlist the participation and support of women's NGOs in programmes for job creation through public works and community services in both the city and countryside. • Put into place measures to free women from their double burden of economic activities and household tasks through shared responsibilities, child care facilities and other means.

Recommendation 7 **Eliminating child labour**	Some key steps that should be taken to make further progress toward the elimination of child labour are: • Build on the "Education for All" agenda by adopting national programmes to increase access to and the quality of education. Although progress has been made, providing quality and accessible education to all children, by addressing the differences between urban and rural areas and between boys and girls remains a critical challenge. It is necessary to build schools in rural areas and to drastically reduce the costs of education for drop-out students, including school fees, in-kind payments to schools, transportation in and housing costs • Establish a clear legal regulatory framework for the informal mining sector, to allow enforcement of child labour legislation. In June 2005, the Government, CMTU and MONEF signed a tripartite Call for Collabourative Action to eliminate child labour in mining by 2015 and have developed an action plan to achieve this objective. • Strengthen capacities in gathering data, planning, implementing and monitoring the government's programmes to eliminate child labour. In addition, there is a need to continue mainstreaming the issue of child labour into overall national and sectoral policy agendas, by broadening the network and interest groups, further developing and harmonizing the policies and legal framework, improving the methods of awareness raising, reaching and mobilizing Mongolia's widely dispersed population and replicating effective direct actions for eliminating and preventing the worst forms of child labour • Focused assessments of progress in implementing existing legislation, including the identification of problems and aggressive moves to strengthen implementation capacity are needed. • In all efforts, maintain the approach of promoting sustained actions at the local level, backed up with effective policies at the national level
Recommendation 8 **Opening opportunities for persons with disabilities in the labour market**	• Mainstream people with disabilities into programmes for employment and employability and to improve access to information and services • Support the development of associations of people with disabilities and the NGOs that serve them, so that they can participate in decisions that affect their ability to find decent work • Focus particular attention on employment for people with disabilities in rural areas, where access is still very constrained work collaboratively with employers associations and trade unions to strengthen and advance services, especially efforts to mainstream disabled persons in existing programmes and activities take all necessary measures to ensure equal access to skills training for people with disabilities
Recommendation 9 **Expanding employment opportunities for migrants**	• Eliminate obstacles to registration by internal migrants, to ensure them unimpeded access to labour markets and social services in their new homes • Eliminate the gaps in public services offered to migrants and those offered to other urban residents • Strengthen support for and management of employment abroad and protection for migrant workers

Recommendation 10 **Rolling back informality – reducing the gap between formal and informal workers in access to government services and protections, and expanding the formal sector**	• Continue and expand efforts to "formalize" informal employment by expanding government services to informal workers; creating legal, economic, labour and social protection guarantees to protect people in informal employment from risks. • Improve access of informal economy operators to credit, training and business incubator services by targeting them in government and donor programs • Create and support new associations and unions that will protect separate groups of informal economy workers such as informal miners, drivers and owners of microbuses and taxis, photographers, street vendors, market sellers and others • Reduce employers social insurance contribution to the appropriate level, while ensuring that the Social Insurance Fund finances are not weakened and future benefits not jeopardized • Create a more taxpayer-friendly tax administration regime by reducing red tape and streamlining the audit process, in order to promote transparency and growth and employment creation in Mongolian business
Recommendation 11 **Rural employment generation – reinvigorating the soum centre economy**	• Expansion of employment services, training, counselling, placement, information and others, in *soum* centres. A larger share of the Employment Promotion Fund could be earmarked for use at the *soum* level, and programs launched to fully utilize the funds. • Piloting of new small business development services in *soum* centres, including both agricultural extension services supporting the more rapid growth of Mongolia's new "herder as entrepreneur" and more general businesses that can serve the rural economy. Such an effort would be best taken as a participatory, grass roots process such as local economic development. Small businesses would be developed according to local conditions, using local raw materials and servicing local markets. Larger *soum* centres – those with populations greater than 1000 – would in most cases be particularly promising sites for such initiatives. • Infrastructure development at local level. Expand investment in water supply, sanitation and roads are all clear candidates for investment at the soum level, for their immediate employment opportunities and for their longer term impact on economic development. • *Launch a broader and more determined decentralization program*, giving soum citizens' *hurals* and governors greater authority to chart and implement local development initiatives, including the authority to command more fiscal resources.

Recommendation 12 **Expanding and broadening mining sector-based employment creation**	• **Governance and public management**: The proper use of the large flow of resources generated by the mining sector depends greatly on establishing effective governance, especially transparency in financial management, and future-oriented allocation of the resources are essential. Most importantly, income from mining should be invested in human development and in infrastructure development. Distribution of mineral exploitation licenses and permits should be transparent and resolved on the basis of fair competition. Mining sector tax policy should be designed to achieve the broadest social benefits. • **Training and skills development.** (See broader discussion of skills development issues above.) For the mining sector to generate more work-places for poor, unemployed Mongolians, training of the professional workforce should be made a high priority. While some training will be provided on the job by employers, there is a pressing need for ambitious, focused mining sector skill training programs, to avert a major skills mismatch problem as new mines open and workers are required. If this demand cannot be met by the educational system of Mongolia, these workplaces will be filled by foreign workers. At present, of total foreign nationals working in Mongolia nearly 50% are mining experts. • **Legal coordination to formalize informal mining**. Informal mining has become an important source of employment and income for tens of thousands of Mongolian households. However this work often takes place under hazardous conditions, and an unacceptably high degree of child labour is involved in it. There is therefore a need to formalize informal mining, in other words, to legally coordinate informal mining along with its support, to resolve issues of taxation, permission, social welfare, healthcare of informal miners and to give individuals an opportunity to mine gold and other natural resources in an environmentally-friendly healthy way. This would also allow effective steps to ensure that current trends toward use of child labour in this sector are ended, as they risk producing a substantial number of uneducated and unskilled Mongolians. • **Linkages with other sectors:** in order to retain a greater share of income and wealth generated by the mining sector to support growth in other sectors other Mongolian companies need to produce machinery, equipment, and its components needed in mining operations. In this case the Mongolian industry will develop as a supplier of the mining sector and industrialization will intensify.

Conclusion: Placing broad-based employment creation at the centre of strategies for growth and development

This report has emphasized the need for an employment-based poverty reduction agenda in Mongolia today, as the core component in the country's effort to ensure that the benefits of rapid economic growth are shared equitably by the whole population. Three key facts that have emerged in the last 10 years in Mongolia are;

a. Economic growth alone is not going to generate good jobs for all the Mongolian people. Indeed, the strong acceleration of growth in the last five years has been accompanied by a slower pace of job creation than in preceding years.

b. Not all jobs are alike. Mongolia needs to create more good jobs, with the potential to provide workers with a reliable source of income, with decent working conditions and compensation that is high enough to allow their families a decent standard of living. Too many of Mongolia's people who report that they are working, are either in poverty or live in risk of falling back into poverty. The danger of a dualistic labour market, with one portion in good jobs with good compensation, while many more are still in low-paying low-benefit jobs in the informal or livestock sectors, is very serious.

c. Unless measures are taken to ensure that Mongolian workers have the right skills and qualities, they will be unable to take advantage of good employment opportunities.

The trend of employers hiring foreign workers in many well-paying jobs can only be reversed if Mongolian workers have the skills that employers require, are in sound health and free of the problem of alcoholism.

In addition, a well-functioning labour market should allow all the Mongolian people to make their full contribution to the country, and to develop to their own full potential. At this time too many women are not able to do this, due to unequal treatment that they face in the work place and in broader society. Persons with disabilities in Mongolia also face constraints that prevent them from making their full contribution to the country's prosperity. A distressingly high number of Mongolian children are sacrificing their futures by dropping out of school in order to earn income for their families today.

International experience demonstrates that policies matter. Enactment of national policies and programs can have a considerable and sustained impact on these problems, and lead to more and better work and enhanced human development. At this time, with strong economic growth and very impressive improvements in the government's budget revenues, there is every reason to move ahead strongly with a package of actions that will create a much more effective link between economic growth and poverty reduction, through the creation of good employment for Mongolia's people, and will address the specific problems of gender inequality, child labour and inability of people with disabilities to find employment. This Mongolia Human Development Report has presented options for doing so, because such goals touch on the very core meaning of the Human Development Concept: giving women and men the opportunity to live full, productive and rewarding lives up to their full potential.

Technical notes (prepared by NSO)

The human development index (HDI)

The HDI is a summary measure of human development. It measures the average achievements in a country in three basic dimensions of human development:

- A long and healthy life, as measured by life expectancy at birth.
- Knowledge, as measured by the adult literacy rate (with two-thirds weight) and the combined primary, secondary and tertiary gross enrolment ratio (with one-third weight).
- A decent standard of living, as measured by GDP per capita (PPP US$).

Before the HDI itself is calculated, an index needs to be created for each of these dimensions. To calculate these indices – the life expectancy, education and GDP indices – minimum and maximum values are chosen for each underlying indicator:

- Life expectancy at birth: 25 years and 85 years.
- Adult literacy rate (age 15 and above): 0% and 100%.
- Combined gross enrolment ratio: 0% and 100%.
- GDP per capita (PPP US$): $100 and $40,000 (PPP US$).

For any component of the HDI individual indices can be computed according to the general formula:

$$Index = \frac{Actual\ \ value - Minimum\ \ value}{Maximum\ \ value - Minimum\ \ value}$$

The HDI is then calculated as a simple average of the dimension indices.

The example is based on the 2006 data of Mongolia.

1. Calculating the life expectancy index

The life expectancy index measures the relative achievement of a country in life expectancy at birth. The life expectancy for Mongolia is 65.85 years and the life expectancy index is 0.681.

$$\text{Life expectancy index} = \frac{65.85 - 25}{85 - 25} = \frac{38.51}{60} = \mathbf{0.681}$$

2. Calculating the education index

The education index measures a country's relative achievement in both adult literacy and combined primary, secondary and tertiary gross enrollment. First, an index for adult literacy and one for combined gross enrolment are calculated. Then these two indices are combined to create the education index, with two-thirds weight to combined gross enrolment. For Mongolia, adult literacy rate is 97.8 and combined gross enrollment rate is 79.4. Thus adult literacy index is 0.978 and combined gross enrolment index is 0.794. The education index, which is a combination of these two, has the value 0.917.

$$\text{Adult literacy index} = \frac{97.8 - 0}{100 - 0} = \frac{97.8}{100} = \mathbf{0.978}$$

$$\text{Gross enrollment index} = \frac{79.4 - 0}{100 - 0} = \mathbf{0.794}$$

Education index=2/3(adult literacy index)+1/3(gross enrolment index)=2/3(0.978)+1/3(0.794) = **0.917**

3. Calculating the GDP index

The GDP index is calculated using adjusted GDP per capita (PPP US$). In the HDI income serves as a surrogate for all the dimensions of human development not reflected in along and healthy life and in knowledge. Income is adjusted because achieving a respectable level of human development does not require unlimited income. Accordingly, the logarithm of income is used. For Mongolia, with a GDP per capita of $2,823.1(PPP US$), the GDP index 0.558.

$$\text{GDP index} = \frac{\log(2{,}823.1) - \log(100)}{\log(40{,}000) - \log(100)} = \mathbf{0.558}$$

4. Calculating the HDI

Once the dimension indices have been calculated, determining the HDI is straightforward. It is a simple average of the three dimension indices. The Mongolia HDI is 0.718.

HDI=1/3(life expectancy index)+1/3(education index)+1/3(GDP index)
=1/3(0.681)+1/3(0.917)+1/3(0.558)=**0.718**

The gender-related development index (GDI)

While the HDI measures average achievement, the GDI adjusts the average achievement to reflect the inequalities between men and women in the following dimensions:

- A long and healthy life, as measured by life expectancy at birth.
- Knowledge, as measured by the adult literacy rate and the combined primary, secondary and tertiary gross enrolment ratio.
- A decent standard of living, as measured earned income (PPP US$).

The calculation of the GDI involves three steps. First, female and male indices in each dimension are calculated according to this general formula:

$$Index = \frac{Actual\ \ value - Minimum\ \ value}{Maximum\ \ value - Minimum\ \ value}$$

Second, the equally distributed index is calculated according to the following formula:

$$Equally\ distributed\ index = \{[female\ population\ share\ (female\ index^{1-\in})] + [male\ population\ share\ (male\ index^{1-\in})]\}^{1/1-\in}$$

$\in$ measures the aversion of inequality. In general, higher the value it takes the more is aversion of inequality.

In GDI calculation $\in$=2. Thus equally distributed index for GDI is a harmonic mean of the female and male indices.

Fixed minimum and maximum values for GDI calculation:

- Female life expectancy at birth: 27.5 years and 87.5 years.
- Male life expectancy at birth: 22.5 years and 82.5 years.
- Adult literacy rate (age 15 and above): 0% and 100%.
- Combined gross enrolment ratio: 0% and 100%.
- GDP per capita (PPP US$): $100 and $40,000 (PPP US$).

Third, the GDI is a simple average of three equally distributed indices.

Calculating the GDI

The example is based on the 2006 data of Mongolia.

1. Life expectancy index:

	Female	Male
Life expectancy:	69.4	62.6
Population share:	0.512	0.488

$$\text{Female life expectancy index} = \frac{69.4 - 27.5}{87.5 - 27.5} = 0.698$$

$$\text{Male life expectancy index} = \frac{62.6 - 22.5}{82.5 - 22.5} = 0.668$$

Calculation of equally distributed life expectancy index is based on these two indices.

Equally distributed life expectancy index=$\{[0.488(0.668)^{-1}]+[0.512\ (0.698)^{-1}]\}^{-1}$=**0.683**

2. Calculating the equally distributed education index

	Female	Male
Population share:	0.512	0.488
Adult literacy rate:	97.5	98.0
Adult literacy index:	0.975	0.980
Gross enrolment ratio (%):	83.2	75.5
Gross enrolment index:	0.832	0.755

Female and male education indices are calculated according to the formula in HDI calculation.

Female education index=2/3 (0.975)+1/3 (0.832)=**0.927**
Male education index=2/3 (0.98)+1/3 (0.755)=**0.905**

Equally distributed education index =$\{[0.512(0.927)^{-1}]+[0.488\ (0.905)^{-1}]\}^{-1}$=**0.916**

3. Calculating the equally distributed income index

	Female	Male
Population share:	0.512	0.488
GDP per capita (PPP US$):	2611.4	3045.6

$$\text{Male income index} = \frac{\log(3045.6) - \log(100)}{\log(40000) - \log(100)} = 0.570$$

$$\text{Female income index} = \frac{\log(2611.4) - \log(100)}{\log(40000) - \log(100)} = 0.545$$

Equally distributed income index =$\{[0.512(0.524)^{-1}]+[0.488\ (0.570)^{-1}]\}^{-1}$=**0.557**

4. Calculating the GDI

The GDI is a simple average of three equally distributed indices of life expectancy, education and earned income.

GDI=1/3(life expectancy index)+1/3(education index)+1/3(income index)=1/3(0.683)+ 1/3(0.916)+1/3(0.557)=**0.719**

The gender empowerment measure (GEM)

Focusing on women's opportunities rather than their capabilities, the GEM captures gender inequality in three key areas:

- Political participation and decision-making power, as measured by women's and men's percentage shared of parliamentary seats.
- Economic participation and decision-making power, as measured by two indicators - women's and men's percentage shares of positions as legislators, senior officials and managers and women's and men's percentage shares of professional and technical positions.
- Power over economic resources, as measured by women's and men's estimated earned income (PPP US$).

For each of these three dimensions, an equally distributed equivalent percentage (EDEP) is calculated, as a population – weighted average, according to the following general formula:

$$EDEP=\{[\textit{female population share}\ (\textit{female index}^{1-\in})]+[\textit{male population share}\ (\textit{male index}^{1-\in})]\}^{1/1-\in}$$

$\in$ measures the aversion to inequality. In the GEM (as the GDI) $\in=2$, which places a moderate penalty on inequality. The formula is thus:

$$EDEP=\{[\text{female population share (female index}^{-1})]+[\text{male population share (male index}^{-1})]\}^{-1}$$

For political and economic participation and decision-making, EDEP is then indexed by dividing it by 50. The rationale for this indexation: in an ideal society, with equal empowerment of the sexes, the GEM variables would equal 50%- that is women's share would equal men's share for each variable.

Finally, the GEM is calculated as a simple average of the three EDEPs.

Calculating the GEM

The calculation is based on the 2006 data for Mongolia as whole.

1. Calculating the EDEP for parliamentary representation

The EDEP for parliamentary representation measures the relative empowerment of women in terms of their political participation.

	Female	Male
Population share:	0.512	0.488
Parliamentary share (%)	6.6	93.4

EDEP for parliamentary representation=$\{[0.512(6.6)^{-1}]+[0.488(93.4)^{-1}]\}^{-1}=12.1$

Indexed EDEP for parliamentary representation= $\frac{12.1}{50}=\mathbf{0.242}$

2. Calculating the EDEP for economic participation

The EDEP for economic participation is calculated using women's and men's the percentage shares of administrative and managerial positions and women's and men's percentage shares of professional and technical positions.

	Female	Male
Population share:	0.512	0.488
Percentage share of administrative and managerial positions:	39.2	60.8
Percentage share of professional and technical positions:	59.9	40.1

EDEP for administrative and managerial positions=$\{[0.512(39.2)^{-1}]+[0.488(60.8)^{-1}]\}^{-1}=47.4$

Indexed EDEP for administrative and managerial positions= $\frac{47.4}{50}=\mathbf{0.948}$

EDEP for professional and technical positions=$\{[0.512(59.9)^{-1}]+[0.488(40.1)^{-1}]\}^{-1}=\mathbf{48.3}$

Indexed EDEP for professional and technical positions= $\frac{48.3}{50}=\mathbf{0.966}$

EDEP for economic participation is an average of two indexed EDEPs.

EDEP for economic participation= $\frac{0.948+0.966}{2}=\mathbf{0.957}$

3. Calculating the EDEP for income

Women's and men's earned income (PPP US$) is estimated

	Female	Male
Population share:	0.512	0.488
Estimated earned income (PPP US$):	2611.4	3045.6

Income index= $\frac{3045.6-100}{40000-100}=0.074$ Income index= $\frac{2611.4-100}{40000-100}=0.063$

The female and male indices are then combined to create the equally distributed index:

EDEP for income=$\{[0.512(0.063)^{-1}]+[0.488\ (0.074)^{-1}]\}^{-1}=\mathbf{0.068}$

4. Calculating the GEM

One the EDEP has been calculated for the three dimensions of the GEM, determining the GEM is straightforward. It is a simple average of three EDEP indices.

$$GEM=\frac{0.242+0.957+0.068}{3}=\mathbf{0.422}$$

Foster, Greer, Thorbecke (FGT) Indices

A very general family of poverty measures were developed by Foster, Greer and Thorbecke (1984):

The headcount, poverty gap and squared poverty gap indices (to be defined) later all belong to this family of measures.

The FGT measures are defined for a ≥ 0, with a as a measure of the sensitivity of the index to poverty.

- If α = 0, we have the headcount index P_0.
- If α = 1, we have the poverty gap index P_1.
- If α = 2, we have the poverty severity index P_2.

These measures do not have all the "desirable" properties, but they are widely used especially the headcount and poverty gap index (because of their intuitive appeal).

Headcount Index

The Headcount Index (denoted as P0) is the proportion of the population for whom consumption (or some other welfare indicator) is below the poverty line, that is, the share of the population that cannot afford to buy a basic basket of goods

- It is ratio of the number of poor people to the total population
- It measures the *incidence of poverty*
- It is also called the *poverty rate or poverty incidence.*

The headcount index implies that there is a "jump" in welfare, at about the poverty line, In practice, such a jump is not found.

The easiest way to reduce the headcount index is to target benefits to people just below the poverty line, because these are the ones who are cheapest to move across the line. But such policies are sub-optimal. Thus, despite its popularity, many problems result from an undue concentration on the head-count statistic.

Calculating the FGT Indices

$$P_\alpha = \frac{1}{N}\sum_{i=1}^{q}\left(\frac{z - y_i}{z}\right)^\alpha$$

where y_i is poverty indicator with

$y_1, \ldots, y_q < z < y_{q+1} \ldots y_N$

Calculating the Headcount Index

Formally,

$$P_0 = \frac{1}{N}\sum_{i=1}^{N} I(y_i < z) = \frac{1}{N}\sum_{i=1}^{q} 1 = \frac{q}{N},$$

where N = total population

I(.) = an indicator function that takes on a value of 1 if the bracketed expression is true (i.e. poor), and 0 otherwise (nonpoor)

y_i = poverty indicator, e.g., consumption per cap

z = poverty line

q = number of poor in the population

$y_i, \ldots, y_q < z < y_{q+1} \ldots y_n$

Poverty Gap Index

The poverty gap index is the average, over all people, of the proportionate gaps between poor people's living standards and the poverty line (as a proportion of the poverty line).

EXAMPLE: The poverty gap ratio in education could be the number of years of education needed or required to reach a defined threshold. In some cases, though, the measure does not make sense or is not quantifiable (for example, when indicators are binary, such as literacy, in which case only the concept of the headcount can be used).

Squared Poverty Gap Index (Severity)

The squared poverty gap index, defined as the average of the square relative poverty gap of the poor, is a weighted sum of poverty gaps (as a proportion of the poverty line), where the weights are the proportionate poverty gaps themselves.

The index is like the poverty gap index, but it has weights given to each observation, putting more weight on those that fall well below the poverty line.

A poverty gap of (say) 10% of the poverty line is given a weight of 10% while one of 50% is given a weight of 50%; this is in contrast with the poverty gap index, where they are weighted equally.

Gini coefficient

The Gini coefficient is a measure of statistical dispersion most prominently used as a measure of inequality of income distribution or inequality of wealth distribution. It is defined as a ratio with values between 0 and 1:

- the numerator is the area between the Lorenz curve of the distribution and the uniform distribution line;
- the denominator is the area under the uniform distribution line.

Thus, a low Gini coefficient indicates more equal income or wealth distribution, while a high Gini coefficient indicates more unequal distribution. 0 corresponds to perfect equality (everyone having exactly the same income) and 1 corresponds to perfect inequality (where one person has all the income, while everyone else has zero income). The Gini coefficient requires that no one have a negative net income or wealth.

Calculating the Poverty Gap Index

More specifically, define the gap (G_n) as the difference between the poverty line (z) and the actual consumption (y_i) for poor individuals; the gap is considered to be zero for everyone else, then the poverty gap index P_1 is

$$P_1 = \frac{1}{N}\sum_{i=1}^{N}\left(\frac{z-y_i}{z}\right)I(z-y_i) = \frac{1}{N}\sum_{i=1}^{q}\left(\frac{z-y_i}{z}\right)$$

Calculating the Squared Poverty Gap Index (Severity)

The squared poverty gap index (P2) is

$$P_2 = \frac{1}{N}\sum_{i=1}^{q}\left(\frac{z-y_i}{z}\right)^2$$

Calculating the Gini coefficient

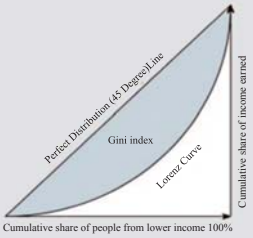
There are formulae for calculating the Gini coefficient, and the easiest to manipulate is:

$$Gini = 2\,\frac{Cov(y_i, f_i)}{\frac{1}{N}\sum_{i=1}^{N} y_i}$$

where

- y_i is the expenditure of household i
- f_i is the rank of household i in the distribution
- (f varies between 0 for the poorest and 1 for the richest)

The Gini coefficient is defined as a ratio of the areas on the Lorenz curve diagram. If the area between the line of perfect equality and Lorenz curve is A, and the area under the Lorenz curve is B, then the Gini coefficient is A/(A+B). Since A+B = 0.5, the Gini coefficient, G = A/(.5) = 2A = 1-2B. If the Lorenz curve is represented by the function Y = L(X), the value of B can be found with integration and:



All estimation by using STATA